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A study on non-performing assets in select public sector banks in India

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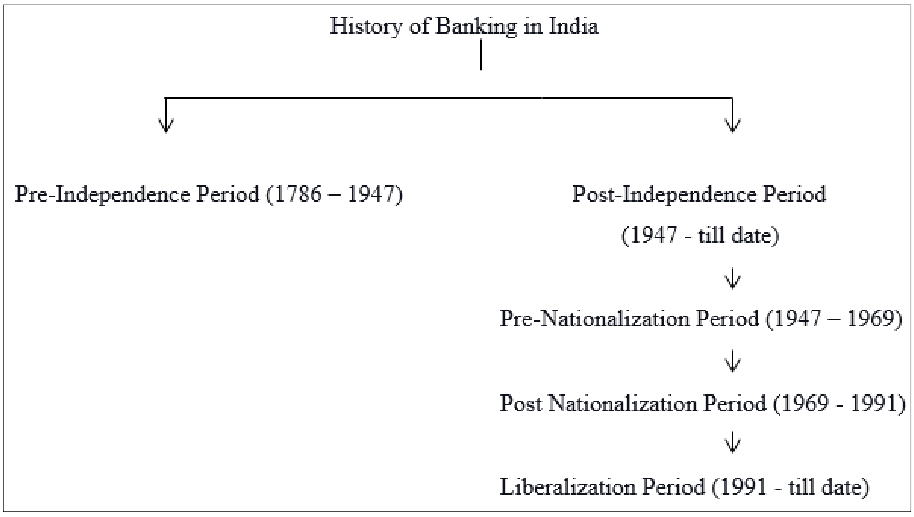
Abstract
Non-Performing Assets have become barriers to the Indian Economy for the development. The banking sector in India is facing serious problems in the increasing NPAs. They are directly impacting the profitability of banks. Based on the recommendations of Narasimham Committee and Verma Committee, some steps have been taken to solve the problem of NPAs in the balance sheet of the banks. NPAs not only affect the growth of banks but also the economy as a whole. RBI implemented several prudential and provisioning norms to pressurize the banks to improve the efficiency and cut down NPAs to improve the financial health in the banking sector. This paper analyses the position of NPAs in selected banks namely State Bank of India (SBI), Punjab National Bank (PNB), and Bank of Baroda (BOB) for the period from 2011 to 2021 and an attempt is made to understand the concept of NPAs and also study about the progress on the recovery of NPAs through various channels. NPAs have to be managed properly to improve the efficiency and profitability of banks in India.

Keywords: NPA (Non-Performing Assets), Gross NPA's, Net NPA's, Recovery Channels

Introduction
In India, the banking sector acts as the backbone of the national financial system. For every country in the world, there is a need for an effective banking system to sustain the international markets for the economic growth of the country. For every country there will be a regulating bank called Central Bank, likewise in India, there is a regulating bank named Reserve Bank of India (i.e., Central Bank) to regulate the activities of all the banks in India. The banking system will act as the financial pillar of the financial sector, which plays a significant role in the functioning of an economy. The bank plays an important role in underdeveloped and developing countries as a supplier of money. It facilitates internal and external trade. It supports the trade largely done on credit. For the development of the economy, the banks mobilize the deposits and distribute the credit to the various sectors. It reflects the healthy position of the economy of the country.

History of Banking System in India
In India, the modern banking system was started in the mid-18th century. In that period, two banks originated and started their operations in India. The first bank was The Bank of Hindustan established in 1770 and it was liquidated during the period 1829 - 32 and the second bank was the General Bank of India, established in 1786 but failed in 1791 to continue. The Bank of Hindustan was established by the agency house of Alexander and Company. It is the first bank, which issued paper currency in India during the British East India Company rule. The first private banks that issued paper notes were the Bank of Hindustan and The Presidency Bank during the late 18th century. It was the only monopoly bank to issue paper notes in India at the time of the British Government by the Paper Currency Act 1861. Later on, it was liquidated in 1830 – 32 due to recession in 1819, the failure of Palmer & Co., a British agency house, and the banking crisis of 1832.
The development of the banking sector has been divided into three phases:
Phase I: Early Phase (1770-1969)
Phase II: Nationalization Phase (1969-1991)
Phase III: The liberalization or the banking sector reforms phase (1991 - till date) The pictorial representation of the evolution of the Indian banking system over the years was given below:



The pre-independence period has been discussed already in the article and some other banks also established during this period were:

- Oudh Commercial Bank (1881 – 1958)
- Bank of Bengal (1809)
- Bank of Bombay (1840)
- Bank of Madras (1843)

The three banks i.e., Bank of Bengal (1809), Bank of Bombay (1840), and Bank of Madras (1843) were called Presidential Banks. Later on, there were merged into one single bank in 1921, which was called "Imperial Bank of India". These three banks were established by the East India Company during British rule in India. Later in 1955, the Imperial Bank of India was nationalized and named as State Bank of India. Currently, it is the largest public sector bank in India.
During this period some other banks were also established. The list is furnished below:

Bank Name	Establishment Year
Allahabad Bank	1565
Punjab National Bank	1894
Bank of India	1906
Canara Bank	1906
Bank of Baroda	1908
Central Bank of India	1911

In this period another bank was established i.e., Bankers Bank - Reserve Bank of India (RBI), the Central Bank of India. It was set up by the recommendation of the Royal Commission on Indian Currency and Finance, also known as the Hilton - Young Commission in 1926. The RBI was formed under the act Reserve Bank of India Act, 1934. Which provides the statutory right to the functioning of the bank; the operations were started on 1 April 1935.

Post - Independence Period (1947 - till date)

During the post-independence period, the whole banking system was under private ownership. At the time, the rural population had the only choice of approaching the money lenders to fulfil their requirements. There was no other choice but to move to another option. Due to this they faced many problems to repay their borrowings. Then the Government of India decided to nationalize the Reserve Bank of India in 1949 to solve these issues and for the better development of the economy.

The Imperial Bank of India was nationalized in 1955 and renamed as the State Bank of India. In 1949, the Banking Regulation Act was formed to regulate all the banking firms in India. It was passed as the Banking Companies Act, 1949 and it took effect on 16th March 1949 and later changed to Banking Regulation Act, 1949 from 1 March 1966. It is also extended to Jammu and Kashmir since 1956.
The government of India had nationalised the 14 major commercial banks in 1969 under the leadership of Prime Minister Mrs. Indira Gandhi.
Those banks are;

- Bank of India
- Central Bank of India
- Bank of Baroda
- Punjab National Bank
- United Commercial Bank
- Dena Bank
- Canara Bank
- Syndicate Bank
- Indian Bank
- Allahabad Bank
- Indian Overseas Bank
- Bank of Maharashtra
- Union Bank of India
- United Bank

Before the nationalization of these above 14 commercial banks, the banks were concentrated on only the large businesses and they neglected in providing funds to the prime Indian sector like agriculture, small businesses, industries, and exports.
After the nationalization, another achievement was made in the following year 1975, i.e., the establishment of Regional Rural Banks to promote the financial inclusion of the rural population. Different specialized banks were established to take care of agriculture, small industries, exports and imports, and housing needs, they are NABARD, SIDBI, EXIM Bank, and National Housing Bank.
With this biggest nationalization movement, more people in India started approaching the banks for their financial needs. The nationalization of banks has allowed people and businesses to gain easy access to money. It got recognition across the globe for its stable banking system.

NPA: Conceptual Framework

The NPA concept was initiated by the Reserve Bank of India (RBI) as per the Prudential Norms by the

recommendations of the Narashimam Committee in 1998. The Reserve Bank of India has introduced the prudential norms for Income recognition in a phased manner likewise asset classification and provisioning for the advanced portfolio of the banks to move towards greater transparency and consistency in the published accounts.
An asset is treated as a Non-Performing Asset when the interest and/or instalment of the principal amount are ‘due’ for a specified period to the bank. An asset, including a leased asset, becomes a Non-performing asset when it fails to generate income for the bank. The specified period has been reduced in a phased manner as follows:

Year ending March 31st	Specified Period
1993	Four Quarters
1994	Three Quarters
1995 onwards	Two Quarters

If an amount is not paid within 30 days from the due date, such amount due under any credit facility is treated as ‘past due’. Due to improvement in the recovery climate, payment and settlement system, and up gradation of technology in the banking system, etc., it is decided to deal with the ‘past due’ concept, with effect from March 31st, 2001. So, from that date, a Non-Performing Asset (NPA) shall be an advance where

1. Interest and/or instalment of principal remains overdue in respect of a term loan (more than 180 days),
2. The amount remains ‘out of order’ in respect of an Overdraft/Cash Credit (OD/CC) (more than 180 days),
3. The bill remains overdue in the case of bills purchased and discounted (more than 180 days),
4. Interest and/or instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in advances grant for agricultural purposes, and
5. Any amount to be received remains overdue in respect of other accounts. (More than 180 days).

Moving toward the international best practices and to ensure more transparency in the identification of NPAs, it is decided to adopt the ‘90 days’ overdue norms from the year ending March 31st, 2004. With effect from March 31st, 2004, a non-performing asset (NPA) shall be advance or loan where;

1. Interest and/or instalment of principal remains overdue in respect of a term loan (more than 90 days),
2. The amount remains ‘out of order’ in respect of an Overdraft/Cash Credit (OD/CC) (More than 90 days),
3. The bill remains overdue in the case of bills purchased and discounted (More than 90 days),
4. Interest and/or instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in advances grant for agricultural purposes, and
5. Any amount to be received remains overdue in respect of other accounts. (More than 90 days).

Asset Classification: Non-Performing assets are classified into four categories by banks based on the period for which the asset has remained as a non-performing asset and the reliability of the dues:

1. Standard Assets
2. Sub-Standard Assets
3. Doubtful Assets
4. Loss Assets

1) Standard Assets: These are the assets that do not disclose any problem and do not carry more than normal risk attached to the business. Such assets are treated as performing assets. General provision should be made by the banks for standard assets at the following rates for the funded outstanding on a global loan portfolio basis:

a) Individual housing loans, farm credit to agricultural activities, and Small and Micro Enterprises (SMEs) sector - 0.25%.
b) Advances to Commercial Real Estate - Residential Housing Sector (CRE - RH)1 - 0.75%
c) Advances to Commercial Real Estate (CRE)2 Sector - 1%
d) Restructured advances - as stipulated in the prudential norms for restructuring of advances.
e) Housing loans extended at teaser rates increased from 0.40% to 2.00% because of the high risk associated with them.
f) Advances restructured and classified as standard in terms of the Master Direction - Reserve Bank of India (Relief Measured by Banks in Areas affected by Natural Calamities) - SCBs as updated from time to time - 5%.
g) All other advances and loans are not included from (a) - (f) - 0.40%.

2) Sub-Standard Assets: With effect from March 31st, 2005, the sub-standard asset is the one, which has remained NPA for a period of less than or equal to 12 months. In such cases, the current market value of the security or the current net worth of the borrower/guarantors charged is not enough to ensure recovery of the dues to the bank in full. Such an asset is a well-defined credit weakness that menaces the liquidation of the debt and is characterized by the distinct possibility that the bank will sustain some loss. On total outstanding, a general provision of 15% should be made without making any allowance for securities and ECGC guarantee cover available. Additional provision of 10% would be attracted on the ‘unsecured exposures’ which are identified as ‘sub-standard, i.e., a total of 25% on the outstanding balance.

3) Doubtful Assets: With effect from March 31st, 2005, the assets which have remained NPA for a period exceeding 12 months and which are not considered as a loss advance. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, with the added characteristic that the weaknesses make liquidation or collection in full. The provision should be made regarding the secured portion on the following basis, the rates ranging based on the period for which assets have remained doubtful:

Advances remained in ‘doubtful’ category (Period)	Required Provision
Less than one year	25%
One - three years	40%
More than three years	100%

4) Loss Assets: If any loss of an asset is identified by the bank or internal or external auditor or by the Co-operation Department or RBI inspection but the amount has not been written off wholly or partly it is considered a loss asset. In other words, such assets are considered UN-collectable and of such little value which cannot be classified as bankable assets because there may be some salvage or recoverable value. For any reason, loss assets are permitted to remain in books, with 100% provision to be provided.

Review of literature

Mrs Poonam Arora (2021) [6] correlated the Gross NPA with total advances and found that there was a high degree of a positive relationship between variables. The public sector banks have to take effective measures to overcome the problems of NPAs otherwise it would be a big issue for their survival. The data was collected for 15 years from 2006-2020 from all scheduled commercial banks in India. In PSBs from 2006-2018, the Gross NPA ratio was showing increasing trends from 3.7 to 14.7 and it slightly declined in the last two years i.e., 2019 & 2020. In private sector banks, the GNPA has shown an increasing trend and the GNPA ratio increased from 2.2 in 2006 to 5.5 in 2020 and there is a drastic change in the NPAs also. After the data analysis, the gross NPA ratio is 10.3 for PSBs in the year 2020, which is doubled in the private sector banks (5.5) and even more than four times as compared to foreign banks (2.3). The inefficiency in the credit sanction and disbursement of credit leads to high NPAs in public sector banks. High NPAs create more problems for depositors, investors, lenders, etc. So, the efficiency of NPA management will lead to ensuring stringent scrutiny before disbursement of advances and also controlling and monitoring after sanctioning of loans.

Mr. AbidHusain G Kadiwala (2020) [5] opined that the efficiency to cover the debt of private sector banks is better than public sector banks. The author selected five public and five private sector banks namely State bank of India, Punjab National Bank, Bank of Baroda, Canara Bank, Bank of India and HDFC, AXIS, ICICI, Kotak Mahindra Bank, and Yes Bank. The study was conducted from 2015 to 2019. The author used different statistical tools in operations like mean, Standard Deviation, ANOVA single factor, and two factors. NPAs in private sector banks are formed to be lower than those of public sector banks. The average NPAs from 2015 to 2019 was less than 5% of private sector banks while that of public sector banks was more than 5% which shows the asset quality of private sector banks performing better than public sector banks. Among the public sector banks, BOI has the highest average NPA and SBI has the lowest average NPA, while among the private sector banks ICICI bank has the maximum average NPA and HDFC bank has the minimum average NPA.

Dr. Nilam Panchal (2018) [4] compared the present situation of NPAs in public and private sector banks in India. The Gross NPAs and Net NPAs were analysed for five years i.e. for 2012-17. For this study, he selected 5 public and 5 private sector banks. They are SBI and its associated banks, PNB, BOI, BOB, and Canara bank are PSUs, and ICICI, AXIS, HDFC, Jammu & Kashmir bank, and Kotak Mahindra bank are the Private sector banks selected. In his comparison, in 2017 SBI had the highest GNPA and NNPA and in the private sector, J&K bank had the highest GNPA, whereas ICICI bank had the highest NNPA. When compared to 2015, in 2016 there was an increase in GNPA of almost more than 60% and a 50% gap in NNPA of public and private sector banks. During the study it was revealed that, there were around 7.3 Lakh Crore bad loans amounted by PSBs. In 2016, public sector banks had been affected negatively because the NPAs rose by more than 50%. By this, the author concluded that private sector banks were much healthier than public sector banks because they had less NPAs compared to the PSUs.

Satpal (2014) [8] in his paper attempted to clarify the concept of NPAs, factors contributing to NPAs, the reason for the growth of NPAs, and their impact on the Indian banking system. The author selected three public and three private sector banks for his study for a period of 5 years from 2009 to 2013 to compare the level of NPAs in both the sectors. After the analysis of the selected banks, it was proved that private sector banks were managing their NPAs efficiently compared to the public sector banks and it also revealed that SBI and ICICI banks had the highest Gross and Net NPAs among the selected banks. The author suggested that the problem of recovery is not with the small borrowers but it was with the large borrowers. If the NPAs increase in banks then the profitability of the banks will decrease, this is not at all good for a growing economy.

Pacha Malyadri, S. Sirisha (2011) [7] examined the trends of NPAs in weaker sections in both public and private sector banks. The study was limited to analysing the NPAs of public and private sector banks and the study was conducted for a period of seven years, i.e., from 2004 to 2010. To analyse the data the author used statistical tools such as per centages and Compound Annual Growth Rate (CAGR). It was observed that there is an increase in advances over the period of the study. But if there is a decline in the ratio it will indicate an improvement in the asset quality of Indian public and private sector banks. The banks improved their performance and consequently resulted into trimming down of NPAs by implementing the prudential and provisioning norms and other initiatives taken by the regulatory bodies. This will also help in the improvement of the financial health of the Indian banking system. The government has to formulate specific policies and should implement these policies through RBI for the upliftment of the PSBs. There is a need to upgrade technology in public sector banks and should formulate customer-friendly policies to face the competition at the national and international levels.

Objectives of the study

1. To understand the concept of Non-Performing Assets.
2. To study the relationship between the Gross NPAs and Net NPAs in select Public Sector banks.
3. To know the recovery status of NPAs through various channels.

Methodology of the study

For this study, the researcher has considered the Non-Performing Assets in select public sector banks in India. This study is based on secondary data. This paper discusses the conceptual framework of NPAs and the performance of GNPA and NNPA with Gross and Net Advances and also with Total Assets. This paper also highlights the recovery of NPAs in SCBs through various channels. The period of the study is limited to 10 years from 2011-12 to 2021-22. The data has been collected from the Annual Reports of selected banks and also from the Reserve Bank of India publications including ‘Reports on Trends & Progress of Banking in India’, Statistical tables related to banks in India. The sources of data are Articles and papers related to NPAs, Newspapers, Books, Websites, etc.

Sample Selection: There are 12 Public sector banks in India out of which 3 banks were selected based on convenience sampling. The select banks are:
1. State Bank of India
2. Punjab National Bank
3. Bank of Baroda

Performance of NPAs in Select Public Sector banks
Non-Performing Assets are one of the key parameters used to study the financial performance in banks. This paper focuses on a study on NPAs and evaluates the financial health of Select PSBs.

Gross NPAs and Net NPAs (as a per centage of advances and total assets)
Gross NPAs are the advances that include principal dues of NPAs and Funded Interest Term Loans (FITL) where the similar contra credit is parked in sundries account (Interest capitalization - Restructured Accounts), in respect of NPAs Account. Net NPAs are obtained from Gross NPAs by deducting the following one:
1. In case provision held with NPA account as per asset classification (including additional provisions for NPAs at higher than prescribed rates)
2. Part payment received and kept in suspense account/ any other similar amount
3. Balances in Sundries Account (Interest Capitalization - Restructured Accounts) in respect of NPA accounts.
4. Claims received and held pending adjustments with DICGC/ECGC
5. Floating Provisions
6. Provision in lieu of a decrease in the fair value of restructured accounts classified as NPAs
7. Provision in lieu of a decrease in the fair value of restructured accounts classified as standard assets

Similarly, gross advances include all types of credit facilities like bills discounted/purchased, term loans, demand loans, overdrafts, cash credit, and factored receivables. Whereas net advances are calculated by netting out deductions (i.e., bills discounted, DICGC/ECGC claims, etc.,) from gross advances.

Table 1: Gross NPAs of SBI, PNB and BOB as a percentage of advances and total assets during 2011-2012 to 2020-2021.

Gross NPAs/ gross advances ratio and gross NPAs to total assets ratio						
	GNPA/GADV			GNPA/T. Assets		
Year	**SBI**	**PNB**	**BOB**	**SBI**	**PNB**	**BOB**
2011-12	4.44	2.93	1.53	2.97	1.9	0.98
2012-13	4.75	4.27	2.40	3.27	2.81	1.43
2013-14	4.95	5.25	2.94	3.44	3.43	1.76
2014-15	4.25	6.55	3.71	2.77	4.26	2.22
2015-16	6.50	12.90	9.99	4.35	8.36	5.86
2016-17	6.9	12.53	10.46	4.15	7.69	5.94
2017-18	10.91	18.38	12.26	6.47	11.31	7.55
2018-19	7.53	15.50	9.61	4.69	10.13	5.88
2019-20	6.15	14.21	9.40	3.77	8.85	5.78
2020-21	4.98	14.12	8.87	2.79	8.28	5.54

Source: Annual Reports of SBI, PNB, and BOB, Statistical Tables Relating to Banks in India, Various Issues

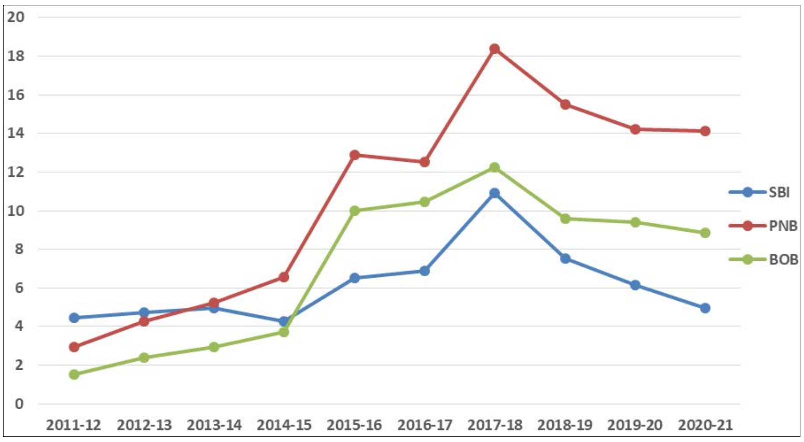


Fig 1: GNPA/GADV Ratio

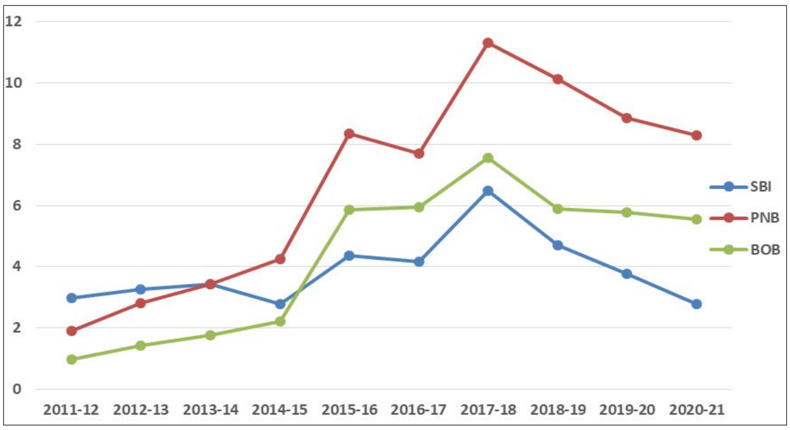


Fig 2: GNPA/T. Assets Ratio

From the above Table-1 and graphs, it is observed that the Gross NPAs to Gross Advance ratio has shown a growth trend in select public sector banks in India over the period of study. Gross NPA to Gross Advance ratio of SBI increased from 4.44 per cent in 2011-12 to 10.91 per cent in 2017-18 and then declined from 10.91 per cent in 2017-18 to 4.98 per cent in 2020-21. In case of PNB, this ratio drastically rose from 8.93 per cent in 2011-12 to 18.38 per cent in 2017-18, meanwhile there was a declining trend for the continuous period with 18.38 per cent in 2017-18 to 14.12 per cent in 2020-21. Same situation happened in BOB, the ratio increased from 1.53 per cent in 2011-12 to 12.26 per cent in 2017-18 which again declined from 12.26 per cent in 2017-18 to 8.87 per cent in 2020-21. The significant deterioration in the recovery of NPAs, along with the decline in gross loans and advances led to an increase in the gross NPAs to gross advances ratio. The setting of asset Reconstruction Company Limited (ARCIL), Debt Recovery Tribunal and SARFASEI Act had not performed well in the recovering the NPAs in the banking sector.

The Gross NPAs to Total Assets percentage had significantly increased across all banks from 2011-12 to 2017-18 and then declined from 2017-18 to 2020-21. This increase can be attributed to the significant deterioration in the asset quality with a rapid decrease in the quantum of credit to the commercial sector.

Table 2: NET NPAs of SBI, PNB and BOB as a percentage of advances and total assets during 2011-2012 to 2020-2021.

Net NPAS/ Net advances Ratio and net NPAS/ T. Assets Ratio						
	NNPA/NADV			**NNPA/T.ASSETS**		
YEAR	**SBI**	**PNB**	**BOB**	**SBI**	**PNB**	**BOB**
2011-12	1.82	1.52	0.54	1.18	0.97	0.34
2012-13	2.1	2.35	1.28	1.40	1.51	0.75
2013-14	2.57	2.85	1.52	1.74	1.80	0.89
2014-15	2.12	4.06	1.87	1.35	2.55	1.11
2015-16	3.81	8.61	5.06	2.47	5.31	2.81
2016-17	3.71	7.81	4.72	2.15	4.54	2.51
2017-18	5.73	11.24	5.49	3.21	6.36	3.14
2018-19	3.01	6.56	3.33	1.79	3.88	1.90
2019-20	2.23	5.78	3.13	1.31	3.28	1.80
2020-21	1.5	5.73	3.09	0.81	3.06	1.81

Source**:** Annual Reports of SBI, PNB, and BOB, Statistical Tables Relating to Banks in India. (Various Issues)

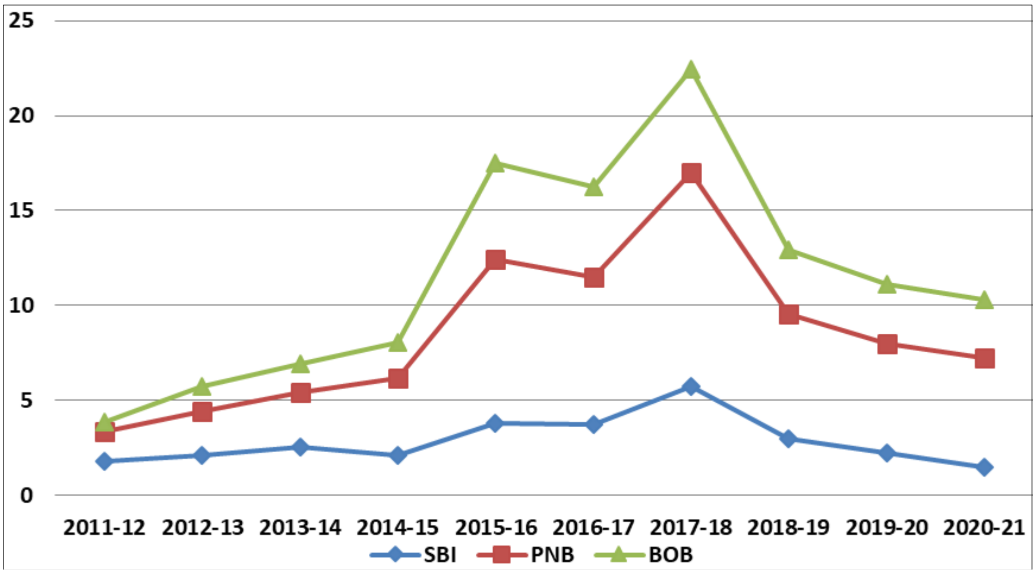


Fig 3: NNPA/NADV Ratio

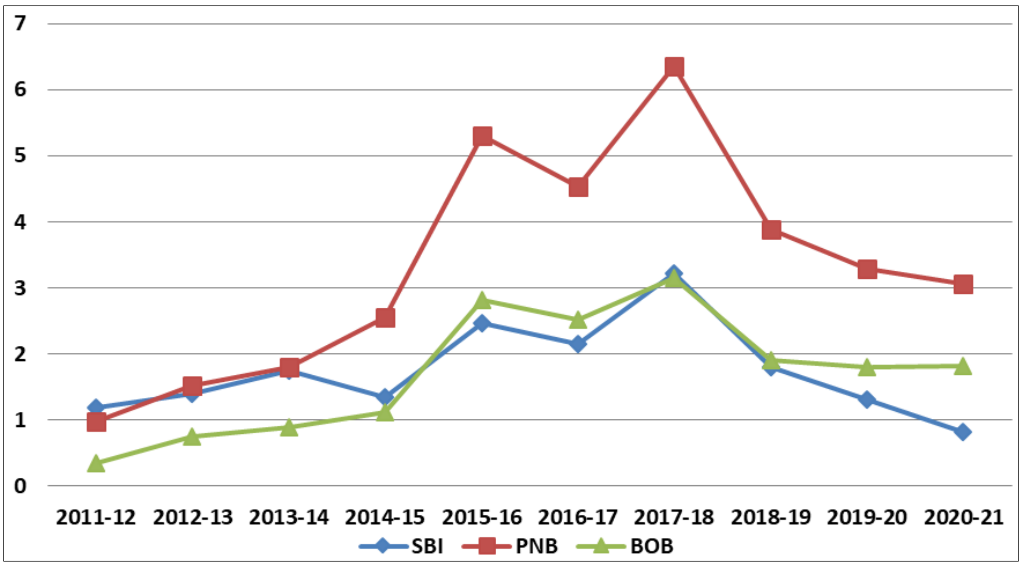


Fig 4: NNPA/T. Assets Ratio

From the above table-2 and graphs, it is observed that the Net NPAs to Net Advance ratio have shown a growth trend in select public sector banks in India over the period of study. Net NPA to Net Advance ratio of SBI increased from 1.18 per cent in 2011-12 to 3.21 per cent in 2017-18 and then declined from 3.21 per cent in 2017-18 to 0.81 per cent in 2020-21. In case of PNB, this ratio drastically rose from 0.97 per cent in 2011-12 to 6.36 per cent in 2017-18; meanwhile there was a declining trend for the continuous period with 6.36 per cent in 2017-18 to 3.06 per cent in 2020-21. Same was repeated in BOB, where the ratio increased from 0.34 per cent in 2011-12 to 3.14 per cent in 2017-18 again declined from 3.14 per cent in 2017-18 to 1.81 per cent in 2020-21. The significant deterioration in the recovery of NPAs, along with the decline in Net loans and advances led to an increase in the Net NPAs to Net advances ratio.

The Net NPAs to Total Assets percentage significantly increased across all banks from 2011-12 to 2017-18 and then declined from 2017-18 to 2020-21. If the NNPA ratio increases, then it badly impacts the operational capabilities and bank's performance. This ratio badly affects the overall public image of the banks, and increase in the NNPA ratio results in huge revenue losses for a bank. The increase in the NNPA ratio will directly impact on the economy as the bank gets short of funds and also affects the development and growth of the nation.

Recovery Channels

For recovery of debts (NPAs) in banks different measures are designed in Indian banking system. The RBI and Central government have initiated steps to manage occurrence of fresh NPAs and creating regulatory and legal environment to simplify the recovery of existing NPAs in banks. The different existing recovery channels are given below:

- Lok Adalats
- Debt Recovery Tribunal (DRTs)
- SARFAESI Act
- Insolvency Bankruptcy Code (IBC)

Table 3: NPAs Recovered From Various Channels of SCBs

NPAS Recovered From Various Channels of SCBs (Amount in Crores)				
Year	**Recovery Channels**	**No. of cases referred**	**Amount Involved**	**Amount Recovered***
2011-12	Lok Adalats	476073	1700	200
	DRTs	13365	24100	4100
	SARFAESI Act	140991^	35300	10100
2012-13	Lok Adalats	840691	6600	400
	DRTs	13408	31000	4400
	SARFAESI Act	190537	68100	18500
2013-14	Lok Adalats	1636957	23205	1440
	DRTs	28258	55318	5261
	SARFAESI Act	194707	95251	25329
2014-15	Lok Adalats	2958313	30979	984
	DRTs	22004	60371	4208
	SARFAESI Act	175355	156778	25600
2015-16	Lok Adalats	4456634	72033	3224
	DRTs	24537	69341	6365
	SARFAESI Act	173582	80100	13179
2016-17	Lok Adalats	2152895	105800	3800
	DRTs	28902	67100	16400
	SARFAESI Act	80076	113100	7800
	IBC	37#	0	0
2017-18	Lok Adalats	3317897	45728	1811
	DRTs	29345	133095	7235
	SARFAESI Act	91330	81879	26380
	IBC	704#	9929@	4926~
2018-19	Lok Adalats	4087555	53484	2750
	DRTs	51679	268413	10552
	SARFAESI Act	235437	258642	38905
	IBC	1152#	145457	66440
2019-20	Lok Adalats	5986790	67801	4211
	DRTs	33139	205032	9986
	SARFAESI Act	105523	196582	34283
	IBC	1986#	224935	104117
2020-21(P)	Lok Adalats	1949249	28084	1119
	DRTs	28182	225361	8113
	SARFAESI Act	57331	67510	27686
	IBC	537#	537	537

***Source*:** Statistical Tables relating to banks in India, Various Issues. RBI

- *: Refer to the amount recovered during the given year, which could be with reference to the cases referred during the given year as well as during the earlier years.
- DRTs: Debt Recovery Tribunals. ^: No. of Notices issued.
- #: Cases admitted by National Company Law Tribunals (NCLTs).
- @: Claims admitted of financial creditors (FCs) on 21 companies for which resolution plans were approved.
- ~: Realizations by FCs from 21 companies for which resolution plans were approved.

Lok Adalats

Lok Adalats is a Forum and also one of the alternative dispute redressal mechanisms, where disputes/ pending cases in the court of law or at pre-litigation stage are settled/ compromised affably. It has been given the statutory status under the Legal Services Authorities Act, 1987. Cases involved up to Rs. 5 Lakhs may be referred to Lok Adalats and raising amount up to Rs.10 lakhs will be taken up with the appropriate authority. This scheme includes all NPA accounts, both suit filed and non-suit filed accounts which are in “Doubtful” and “Loss” category, with outstanding balance of Rs. 5 Lakhs (Rs. 10 Lakhs when the limit is enhanced). Since Lok Adalats is an on-going process, there is No Cutoff date for the cases.

Debt Recovery Tribunal (DRTs)

Debt Recovery Tribunals (DRTs) were formed under the Recovery of Debts and Bankruptcy Act (RDB Act), 1993 with the special objective of recovery of Debts due to Banks and Financial Institutions and providing expeditious adjudication. This is also an appellate authority. It is applicable to the cases where the amount of debt due to any banks of financial institutions is Rs. 20 Lakhs or more.

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

In extension of Lok Adalats and DRTs, SARFAESI Act has been introduced to recover the NPAs in the banks. It allows the banks and financial institutions for auctioning the commercial and residential properties to recover the loan when the borrower (Defaulter) fails to repay the loan amount. It enables banks and other financial institutions to reduce their NPAs through recovery and reconstruction methods.

From the above table – 3, it is observed that the recovery channels were not doing well in the recovery of NPAs during the period of study. Not even a minimum half of the amounts were not recovered by the recovery channels during the period of study. In this period of study from 2011-2021, Lok Adalats recovered only 4.6 per cent, DRTs recovered 6.7 per cent, SARFAESI Act recovered 19.75 per cent, and IBC recovered 46.2 per cent from the total amount of debt assigned to them. At present, there are 39 Debt Recovery Tribunals (DRTs) and 5 Debt Recover Appellate Tribunals (DRATs) functioning in our country and they are headed by the Presiding Officer and the Chairman respectively. In terms of cases, the highest number of cases referred to Lok Adalats were 27863054 and the lowest number of cases referred to IBC were 4416 since it was established of late in the year 2016. Before the IBC, the lowest cases referred to DRTs were 272819. In terms of amount involved, the SARFAESI Act recovered the highest amount of around Rs. 2, 27, 762 Crores out of Rs. 11, 53, 242 Crores and the least amount recovered was around Rs. 19, 939 Crores out of Rs. 4, 35, 414 Crores for the period 2011-2021.

Conclusion

In India, the banking sector is facing a big problem with the NPAs. It is just not a problem to the banks, alone but they are not good to the economy too. Many initiatives were taken by the RBI and Central Government to minimize the NPAs in SCBs during the past few years. But there is no satisfactory results affected by the tribunals. They are not in a position to minimize the NPAs by recovering them from the defaulters. Year-on-year the NPA percentage has been increasing in the SCBs, which will certainly damage the reputation and also the performance of banks. One can’t expect to have zero NPAs because it’s not at all possible in India. So there is need to focus on how to reduce the NPAs by introducing and implementing stringent policies. Banks are doing well but still a lot more is needed to be done. The efficiency and profitability should be increased in banks by properly scheduling the NPAs. Indian banks shall try to compete with the foreign banks to maintain International standards in NPAs. If the NPAs increase, then the interest rates will also increase, and ultimately the borrowers will suffer. To put things in sum, the NPAs will affect the profitability of the bank and it is not good for a growing economy.

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