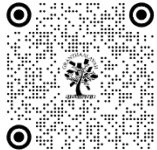


A STUDY ON RECOVERY OF NON-PERFORMING ASSETS OF SCHEDULED COMMERCIAL BANKS IN INDIA

Dr. N. Arunsankar ¹, Dr. R Santhoshkumar ²

¹ Associate Professor, Marian Institute of Management, Marian College Kuttikkanam (Autonomous), Idukki Dist., Kerala, India

² Associate Professor, Marian Institute of Management, Marian College Kuttikkanam (Autonomous), Idukki Dist., Kerala, India



Corresponding Author

Dr. N. Arunsankar,
narunsankar1978@gmail.com

DOI
[10.29121/shodhkosh.v5.i6.2024.5805](https://doi.org/10.29121/shodhkosh.v5.i6.2024.5805)

Funding: This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

Copyright: © 2024 The Author(s). This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

With the license CC-BY, authors retain the copyright, allowing anyone to download, reuse, re-print, modify, distribute, and/or copy their contribution. The work must be properly attributed to its author.



ABSTRACT

Non- Performing Assets is an important tool to judge the degree of the financial strength of any bank because it directly affects the profitability and financial efficiency of the banks. It is worthwhile at this stage to discuss the various recovery measures adopted by banks and financial institutions (FIs) for reducing the level of NPAs. Broadly speaking, recovery measures can be classified into Non-Legal and Legal measures. This research paper examines the recovery of Non – Performing Assets by scheduled commercial banks in India from various measures. The following are the objectives of the present paper that are framed to study the recovery of NPA in India: 1. To evaluate the Recovery procedure of Banks through various measures. 2.To examine the Recovery of NPA by banks under SARFAESI Act. For data analysis, AGR, Mean, SD, CV, GAGR, and ANOVA are used as statistical tools. Finally, this paper brings out the significant difference in the mean NPA recovery channels among scheduled commercial banks during the study period.

Keywords: Non-Performing, Recovery, Assets, Scheduled, Banks

1. INTRODUCTION

PROSPERITY of any country depends upon its prosperous economy, which in turn relies upon its vibrant banking system. At present, the Non- Performing Assets (NPAs) are posing a serious threat to the banking industry. The financial health of the banks are greatly affected by the NPAs. The high level of NPAs are the greatest impediment to the economic growth of the country and any bottleneck in the smooth flow of credit is bound to create adverse repercussions in the economy. Hence, the management of NPA's has emerged as one of the major challenges for the banks.

It is a well-accepted fact that the present legal framework in India is to some extent debtor-friendly. Many defaulting borrowers know that banks cannot force them to repay quickly, and even if banks have the collateral due to the long time taken in the Judicial Process, it is practically impossible to take over the Security. Debt Recovery Tribunals, set up for speedy enforcement of the law against defaulting borrowers, have not so far made much of a dent in the NPA position of

banks. The present bankruptcy and liquidation processes are fraught with loop-holes which defaulters make use of installing the loan recovery process.

The 'Securitization, Reconstruction of Financial Assets and Enforcement of Security Ordinance' promulgated by the President of India in June 2002 is an important initiative to recover NPAs. The ordinance empowers creditors and provides a legal framework for the securitization of assets and asset reconstruction through dedicated asset reconstruction companies.

2. RECOVERY MEASURES

It is worthwhile at this stage to discuss the various recovery measures adopted by banks and financial institutions (FIs) for reducing the level of NPAs. Broadly speaking, recovery measures can be classified into Non-Legal and Legal measures. The measures are discussed in detail along with a suggestion for recovery management. Some of the notable measures in this regard include:

2.1. NON-LEGAL MEASURES

- Reminder System
- Visit Borrower's business premises/residence
- Recovery camp
- Rehabilitation of sick companies
- Debt Restructuring
- Loan compromise
- Replacement / Reschedulement
- Write-off
- Recovery Agents

2.2. LEGAL MEASURES

- Debt Recovery Tribunals
- Lok Adalats
- Asset Reconstruction Companies
- SARFAESI ACT 2002.

3. SARFAESI ACT 2002

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI) Empowers Banks / Financial Institution to recover their non-performing assets without the intervention of the court. The Act provides three alternative methods for recovery of Non-Performing Assets, namely:

- Securitization
- Asset Reconstruction
- Enforcement of Security without the intervention of the court.

The provisions of this Act are applicable only for NPA loans with outstanding above Rs.1 Lakh. NPA loan accounts where the amount is less than 20% of the principal and interest are not eligible to be dealt with under this Act.

Non-Performing Assets should be backed by Securities charged to the bank by way of hypothecation or mortgage or assignment. Security Interest by way of Lien, pledge, hire purchase, and lease not liable for attachment u/s 60 of CPC are not covered under this Act.

Keywords: NPA, Scheduled Commercial Banks, SARFAESI Act, Annual Growth Rate(AGR), Variance

Abbreviations: OTS – One Time Settlement; LA – Lok Adalats; DRTs- Debt Recovery Tribunals; SCB – Scheduled Commercial Banks ; CAGR – Combined Annual Growth Rate.

4. STATEMENT OF THE PROBLEM

The Non-Performing Assets (NPA) problem is one of the foremost and the most formidable problems that have shaken the entire banking industry in India. At the macro level, NPAs have choked off the supply line of credit to the potential borrowers, thereby having a deleterious effect on the Capital formation and arresting the economic activity in the country. At the micro-level, the unsustainable level of NPA's has eroded the profitability of banks through reduced interest income and provisioning requirements, besides restricting the recycling of funds leading to serious asset-liability mismatches. Moreover, no attempt has so far been made to study the effect of the SARFAESI Act on the level of NPAs of different bank groups. Hence, an attempt has been made in the present study to identify the effective recovery of NPAs under the SARFAESI Act 2002 by Scheduled Commercial Banks in India.

5. RESEARCH METHODOLOGY

The present study is based on secondary data and therefore is analytical. The data required for this study have been collected from "Reports on Trend and Progress of Banking in India" published by RBI. A study period of 17 years has been considered for this study, from 2002-03 to 2018-19. For data analysis, the following statistical tools AGR, Mean, SD, CV, CAGR are used. Besides, one way ANOVA has been applied to explain the significant difference in the mean NPA recovery channels among scheduled commercial banks during the study period.

5.1. OBJECTIVES OF THE STUDY

The following are the major objectives of the present study:

- 1) To evaluate the Recovery procedure of Banks through various measures.
- 2) To examine the Recovery of NPA by banks under the SARFAESI Act.

6. REVIEW OF LITERATURE

Meenakshi Rajeev and Mahesh (2010) attempted to examine the trends of NPAs in India from various dimensions and explain how mere recognition of the problem and self-monitoring was able to reduce it to a greater extent. The study is based on secondary data. The data were analyzed by employing tools like Percentage Analysis, Average, Trend Analysis, and CGR. The study showed that the public sector banks in India, which functioned to some extent with welfare motives, had a good record in reducing NPAs as their counterparts in the private sector. It is found that such a decline is mainly due to the awareness of the problem of bad loans at the bank level. It remains true that NPA in the priority sector is still higher than that of the non-priority sector. Within the priority sector, the SSI's performance is worst. In this context, the self-help group model can be applied to some of the sectors to help the poor access loans and ensure the repayment for the banks.

Sonia Narula and Monika Singla (2014) have attempted to assess the non-performing assets of Punjab National Bank and its impact on profitability. The annual reports of Punjab National Bank were the main sources of data contained for a period of six years from 2006-07 to 2011-12. The data were analyzed by using tables and the coefficient of correlation. It is found that there is a positive relation between Net Profits and NPA of PNB. It simply means that as profits increase NPA also increases. It is because of the mismanagement on the side of the bank.

Amit Kumar Nag (2015) has undertaken a comparative study to examine the level of NPAs in scheduled commercial banks in India. The required data were collected and compiled from various annual reports published periodically by the nationalized, private, foreign banks in India as well as from the RBI Bulletins for a period of five years, from 2007-08 to 2011-2012. The statistical techniques like Percentage Analysis, Averages, Coefficient of Variation, one way ANOVA were used to analyze the data. The present study reveals that the State Bank of India, UCO Bank, and Central Bank of India are performing poorly in terms of their NPA management. When analyzing the performances of the private banks in terms of NPA management, it was noticed that the Catholic Syrian Bank, ICICI Bank, and Kotak Mahindra Bank

performed badly. The overall average of ten Foreign banks under study stood at 1.59. The study also reveals that the foreign and nationalized banks are facing more problems of NPAs than the private sector banks in India.

7. RESULTS AND DISCUSSION

Trend in NPA Amount Recovered under Various Legal NPA Recovery Measures of Scheduled Commercial Banks in India during the Study Period.

TABLE 1

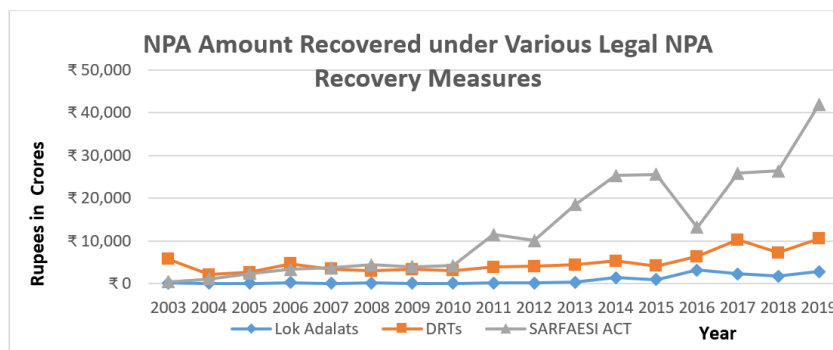
The trend in NPA Amount Recovered under Various Legal NPA Recovery Measures (As of 31st March) (Amount in ₹ Crores)

YEAR	Lok Adalats	% of AGR	DRTs	% of AGR	SARFAESI Act	% of AGR
2003	191		5,787		499	
2004	149	-21.99	2117	-63.42	1156	131.57
2005	113	-24.16	2688	26.97	2391	106.83
2006	265	134.51	4735	76.15^	3363	40.65
2007	106	-60.00	3463	-26.86	3749	11.48
2008	176	66.04	3020	-12.79	4429	18.14
2009	96	-45.45	3348	10.86	3982	-10.09
2010	112	16.67	3133	-6.42	4269	7.21
2011	151	34.82	3930	25.44	11561	170.81^
2012	200	32.45	4100	4.33	10100	-12.64
2013	400	100.00	4400	7.32	18500	83.17
2014	1400	250.00^	5300	20.45	25300	36.76
2015	1000	-28.57	4200	-20.75	25600	1.19
2016	3200^	220.00	6400	52.38	13200	-48.44
2017	2300	-28.13	10300	60.94	25900	96.21
2018	1,811	-21.26	7,235	-29.76	26,380	1.85
2019	2,816	55.49	10,574^	46.15	41,876^	58.74
CAGR	18%		4%		32%	

Source: Compiled and computed from Report on Trend and Progress of Banking in India RBI, 2002-03 to 2018-19.
[AGR=Annual Growth Rate] [^ highest performance]

It is observed from Table 1 that NPA Amount recovered under various legal recovery measures of Scheduled Commercial Banks in India for the study period of 2002-2003 to 2018-19. It is inferred from this table that Lok Adalat, DRTs & SARFAESI Act recovery measures showed a fluctuating trend with NPA amount recovered in India.

It is also observed that while Lok Adalats recorded the highest growth rate in terms of % in 2013-14 with 250.00%, DRTs recorded the highest growth rate in terms of % in 2005-06 with 76.15%, and SARFAESI Act recorded the highest growth rate in 2010-11 at 170.81%. The lowest growth rates of -60.00 %, -63.42 & -48.44% are found to have taken place to the recovery cases of Lok Adalats, DRTs & SARFAESI Act in 2006-07, 2003-04 & 2015-16 respectively.

Chart - 1**NPA Amount Recovered under Various Legal NPA Recovery Measures**

Summary Statistics of NPA Amount Recovered under Various Legal NPA Recovery Measures of Scheduled Commercial Banks during the Study Period

TABLE 2

Summary Statistics of NPA Amount Recovered under Various Legal NPA Recovery Measures of Scheduled Commercial Banks in India

(As of 31st March) (Amount in ₹ Crores)

Particulars	Lok Adalats	DRTs	SARFAESI ACT	Total NPA Recovery
Mean	852.12	4984.12	13073.84	23365.66
Standard Deviation	1054.28	2449.48	12115.48	29141.90
%CV	123.73	49.15	92.67	124.72
Min. Value	96.00	2117.00	499.20	3422.00
Max. Value	3200.00	10574.00	41876.00	126085.00
Range	3104.00	8457.00	41376.80	122663.00
Coefficient of Range	0.94	0.67	0.98	0.95

Source: Compiled and computed from Report on Trend and Progress of Banking in India RBI, 2002-03 to 2018-19. [##except for SC Banks]

The results of the co-efficient of range and coefficient of variation presented in Table 2, show that consistency is retained more in DRTs than other legal NPA recovery measures during the study period. The highest coefficient of variation is found in the SARFAESI Act and Lok Adalat is an indicator of the inconsistent performance in Legal NPA Recovery measures during the study period.

Legal NPA Recovery Measures performance of Scheduled Commercial Banks in India during the Study Period

TABLE 3

Legal NPA Recovery Measures performance of Scheduled Commercial Banks in India (As of 31st March)

(₹ in Crores)

NPA Recovery Channels	Count	Sum	Average	Variance	Rank
Lok Adalats	17.00	14486.00	852.12	1111515.61	1
DRTs	17.00	84730.00	4984.12	5999968.86	2
SARFAESI Act	17.00	222255.20	13073.84	146784783.29	3

Source: Compiled and computed from Report on Trend and Progress of Banking in India RBI, 2002-03 to 2018-19. # least variance basis

According to the ranking of results of various categories of legal NPA recovery measures based on the variance in NPA recovery performance is presented in Table .3 Lok Adalats tops the list in maintaining low variance followed by DRTs & SARFAESI Act which indicates the poor performance of SARFAESI Act in maintaining consistency in the recovery of NPAs of scheduled commercial banks in India.

Analysis of Variance in NPA Amount Recovered under various legal NPA Recovery measures of Scheduled Commercial Banks in India

H0: There is no significant difference in the mean NPA amount recovered under various legal NPA recovery measures of Scheduled Commercial Banks in India.

TABLE 4

Analysis of Variance in NPA Amount Recovered under various legal NPA Recovery measures of Scheduled Commercial Banks in India

<i>Source of Variation</i>	<i>SS</i>	<i>Df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	1314028247.84	2.00	657014123.92	12.81	0.00	3.19
Within Groups	2462340284.11	48.00	51298755.92			
Total	3776368531.95	50.00				

Source: Compiled and computed from Report on Trend and Progress of Banking in India RBI, 2002-03 to 2018-19.

**Significant at 1 % level

It is clear from Table .4 that the calculated value of F (12.81) is higher than the table value (3.19) for $v_1=2$ and $v_2=48$ at 1% significant level and hence the difference in the mean values of the sample is significant which indicates that the samples do not come from the same universe. It is concluded that there is a significant difference in the mean NPA amount recovered under various legal NPA recovery measures of Scheduled Commercial Banks in India.

8. CONCLUSION

The researcher concludes that NPA legal recovery channels from DRT's and SARFAESI Act were performed well during the study period and it's implied that banks should concentrate on other NPA recovery channels that will be improve for a further period. Besides that, there is a significant difference in the mean NPA recovery channels among scheduled commercial banks in India during the study period.

CONFLICT OF INTERESTS

None.

ACKNOWLEDGMENTS

None.

REFERENCES

- Meenakshi Rajeev and Mahesh (2010). Banking Sector Reforms and NPA: A Study of Indian Commercial Banks. *International Journal of social science and interdisciplinary*.3 (7),1-15.
- Sonia Narula., & Monika Singla (2014). Empirical Study on Non-Performing Assets of Bank. *International Journal of Advanced Research in Computer Science and Management Studies*. 2(1), 194-199.
- Amit Kumar Nag (2015). Appraisal of Non-performing Assets in Banking Sector: An Indian Perspective. *Indian Journal of Accounting*.6 (1), 133-143.