



## Recovery of Non-Performing Assets in SCBs in India

### KEYWORDS

Non- Performing Assets, NPA, Scheduled Commercial banks, SARFAESI Act.

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**ABSTRACT** *Non-performing assets are one of the major concerns for scheduled commercial banks in India. The Non-Performing Assets have always created a big problem before banks and financial institutes. The money locked up in NPAs has great impact on the profitability of the banks. NPAs affect the liquidity and profitability, in addition to posing threat on quality of asset and survival of banks. The problem of NPAs is not only affecting the banks but also the whole economy. In fact high level of NPAs in Indian banks is nothing but a reflection of the state of health of the industry and trade. The recommendations of Narasimham committee and Verma committee, some steps have been taken to solve the problem of old NPAs in the balance sheets of the banks. But still a lot needs to be done to curb this major problem of financial sector. It is necessary to trim down NPAs to improve the financial health in the banking system. Here in this paper, an attempt is made to understand concept of NPA, the status of NPAs in Indian Scheduled commercial banks and recovery of NPAs through various major channels. The researcher wants to assess the effectiveness of each track of recovery.*

### Introduction:

The RBI introduced adequate capital norms but commercial banks showed no efforts of recovering their dues. The borrower renewed their loan accounts by getting additional limit of loan & afterwards they showed unwillingness to pay the debt amount. This resulted in to growth in NPAs. In the year 2002 the growth of NPAs of scheduled commercial banks were more than 70904 cores.

The problem of non-performing assets has shaken the entire Indian banking sector. The main reasons for NPAs are willful defaults, ineffective supervision of loan accounts and lack of technical and managerial expertise on the part of borrowers. NPAs put serious impact on the profitability, capital adequacy ratio and credibility of banks.

As the build-up of NPAs has been a major factor in the erosion of profitability of public sector banks in India, the Narasimham Committee (II) suggested the need to reduce the average level of NPAs of all banks from 15 to 3 percent by 2002. On this background, it is necessary to understand the concept, causes and measure taken to reduce NPA level in Banks.

### Objectives:

1. To study the status of Non Performing Assets of Indian Scheduled Commercial Banks in India
2. To study the impact of NPAs on Banks.
3. To know the recovery of NPAs through various channels.
4. To make appropriate suggestions to avoid future NPAs and to manage existing NPAs in Banks.

### Scope of the Study:

The study has the following scope:

1. The study will help the banks and FIs to know what precautions have to be taken before sanctioning the loan.
2. The study may help the government in creating & implementing new strategies to control NPAs.

### Sources of Data:

In this paper only secondary data has been used. The sources of data for this paper include the literature published by Indian Bank and the Reserve Bank of India, various magazines, Journals, Books dealing with the current banking scenario and research papers.

### Methodology of Study:

For our study, we have considered Non Performing Assets in

Scheduled Commercial Banks which includes public sector banks, private sector banks and foreign banks which are listed in the Second Schedule of the Reserve Bank of India Act, 1934. The study is based on secondary data. The paper discusses the concept of NPA and it also highlights status and impact of NPA on scheduled commercial banks. Several reputed research journal and articles have been used by the researchers. Moreover, RBI Report on Trend and Progress of Banking in India for various years, websites etc has been referred during the study.

### Population

Banking industry is taken for the study, where aggregate data related to NPA for Public sector Banks, Private Sector Banks and Foreign Banks is used.

### Meaning and Definition of NPA

Non Performing Assets means an assets or an account of borrower that has been classified by bank or a financial institution as substandard default or loss assets. As long as an asset generates income, it is treated as Performing Asset, and when it fails to generate income, it becomes Non Performing Asset (NPA). In other words a loan asset become non-performing when it does not to generate income i.e. interest, fees, commission etc for the bank.

The Narasimham committee has defined NPAs as, "An advance where on the date of balance it and amount to be paid to the bank is past due for a period of 180 days. (Now 90 days). A amount is considered past due when it remains outstanding for 30 days beyond the due date."

### Impact of NPAs:

The NPA or blocked funds create a direct burden in terms of profitability & Liquidity. A sizeable portion of interest income is absorbed in servicing NPA. The NPA is not nearly non-performing but also cost absorbing & profit eroding. A wider spread is necessary to cover the NPA cost, which reduces the competitive strength of the bank.

The high level NPAs indirectly affected the lending attitude of the bank, which can be called as the indirect burden of NPA. The psychology of the banks today is to insulate them with zero percent risk. This has affected adversely credit growth compared to growth of deposits. The NPAs result into blockage of funds and money function of recycling is contracted. High rate of NPAs are the indication of poor performance of banks.

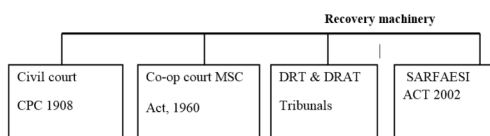
**Table 1: Gross NPAs of SCBs in India**(Amount in Rs. Billion)

Year	Gross Advances	Gross NPA Amt	Gross NPA %
2001-02	6809.58	708.61	10.4
2002-03	7780.43	687.17	8.8
2003-04	9020.26	648.12	7.2
2004-05	11526.82	593.73	5.2
2005-06	15513.78	510.97	3.3
2006-07	20125.1	504.86	2.5
2007-08	25078.85	563.09	2.3
2008-09	30382.54	683.28	2.3
2009-10	35449.65	846.98	2.4
2010-11	40120.79	979	2.5
2011-12	46655.44	1370.96	2.9
2012-13	59882.79	1931.94	3.2
2013-14	68757.48	2641.95	3.8
Mean	29007.96	974.66	4.36

The above table depicts the amount of Gross Advances, Gross NPA and the % of Gross NPA during the period of 2001-02 to 2013-14. The amount of advances of PSBs has increased from Rs. 6810 Billion in 2001-02 to Rs. 68757 Billion in 2013-14. The amount of gross NPAs has increased from Rs. 708.61 billion in 2001-02 to Rs. 2642 billion in 2013-14. Similarly, gross NPA percentage was also high i.e. 10.4% in 2001-02 then it showing a declining trend up to the year 2008-09. The average NPA percentage in last 13 years is 4.36%.

**Major Recovery Tracks:**

There are various measures have been taken by Government of India and RBI to tackle with the problem of NPA. Some measures like LOK Adalat , OTS and compromise settlement have worked out but actually recovery amount under these tracks was not satisfactory. Following are some of the major tracks which are considered in this paper for recovery of NPAs of SCBs in India.



**Civil procedure code 1908**

Rule 41 of CPC is related to attachment of property by a bank that has given advances to the borrower, who fails to repay the amount of debt. The bank may try to obtain a decree against the borrower & guarantor. It can also obtain a decree for sale of hypothecated asset & mortgaged properties. According to rule 41 of CPC a decree holder may apply to the court for an order for repayment of money. The bank may try to obtain a decree against the borrower & guarantor. A bank can also obtain a decree for sale of the hypothecated assets & mortgaged properties. But the procedure under CPC is very lengthy & time consuming because already there are piles of cases pending in civil courts. Hence the recovery of loan through civil court is very lengthy, time consuming, expensive mode of recovery.

**Co-operative societies Act 1960**

Co-op court is the separate forum created under the co-operative law. The provisions of this Act are only applicable to co-op banks & societies established under this act. The Maharashtra State Co-op Societies Act 1960 provides two procedures for recovery of debts by co-op society's u/s 91 & 101. In section 91 disputes are touching with the management and it empowers co-op societies & its members to dispense their grievances in co-op court itself.

Therefore section 101 was introduced in the act by which the co-op societies can file a complaint against the member before Assistant Registrar to settle the dispute between co-op societies & its

members. The Decree issued by co-op court or Certificate issued by Assistant Registrar is similar to that of civil court.

**Debt Recovery Tribunals (DRTs)**

The Debt Recovery Tribunals have been established by the Government of India under an Act of Parliament (Act 51 of 1993) for expeditious adjudication and recovery of debts due to banks and financial institutions. The Debt Recovery Tribunal is also the appellate authority for appeals filed against the proceedings initiated by secured creditors under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act. The recovery of debts due to banks and financial institution passed in March 2000 has helped in strengthening the function of DRTs. DRTs which have been set up by the Government to facilitate speedy recovery by banks/FIs, have not been able make much impact on loan recovery due to variety of reasons like inadequate number, lack of infrastructure, under staffing and frequent adjournment of cases.

**Securitization Act:**

The legal machinery for recovery is not proved speedy recovery due to lengthy procedure of CPC, co-op court and DRT. Govt. of India enacted SARFAESI Act 2002 to tackle with the large and sticky NPA accounts in 2002. The act has given wide powers to banks & FI's to take possession of secured asset of defaulter directly after due notices u/s 13(2) of SARFAESI Act 2002. This Act is really a weapon in the hands of banks to enforce its security interest without intervention of court..

The creditor i.e. bank may ask the borrower to discharge the full liabilities by issuing a notice u/s 13(2) under the said act. If debtor fails to discharge his liabilities within 60 days from the date of notice, creditor i.e. bank is empowered to take possession of the secured asset of the borrower. It can take over the management of the assets of the borrower. It can recover the amount of expenditure made for initiating action against borrower, who has failed to discharge his liability. Thus bank has got an effective tool by which it can liquidate the amount locked in NPAs through securitization act 2002.

Commercial Banks have different measures to recover its due amount from the defaulters. Among the major tracks, recovery under LokAdalat, DRT and newly enacted SARFAESI Act is provided on the RBI website. So following tables depict the eleven years recovery performance of the commercial Banks in India.

**Table 2: NPAs recovered by SCBs through LokAdalats**(Amount in Crore)

Year	Cases referred under LokAdalat	NPA Amt. involved	Actual Amt. Recovered	% of recovery to amt involved
2003-04	1,86,100	1,063	149	14.02
2004-05	1,85,395	801	113	14.11
2005-06	1,81,547	1,101	223	20.25
2006-07	1,60,368	758	106	14.00
2007-08	1,86,535	2,142	176	8.20
2008-09	5,48,308	4,023	96	2.40
2009-10	7,78,833	7,235	112	1.55
2010-11	6,16,018	5,254	151	2.87
2011-12	4,76,073	1,700	200	11.80
2012-13	8,40,691	6,600	400	6.10
2013-14	16,36,957	23,200	1400	6.20
Mean	526984.09	4897.91	284.18	9.23

The above table depicts that the performance of Lok-Adalats was very poor after the year 2007-08 to 2010-11. In 2003-04, the recovery under LokAdalat was very less i.e. only 14 % of total NPA amount referred under this track. The same % has been recovered in next year.

In 2009-10, % of recovery is only 1.55 %. The number of cases referred to LokAdalats for the recovery of NPAs of SCBs has increased largely in 2014. However, there is a continuous decline in the recovery from 2007 to 2011 and then it shows slight improvement from 2010 to 2014. In 2014, LokAdalats are only successful in recovering 1400 crore out of 23200 crore means only 6.2% of the total amount involved in NPAs of the commercial banks. On an average only 9.23 % of total amount involved is recovered. This shows negligible recovery under this track so it doesn't proved effective tool in recovering, the amount involved in NPAs. It means LokAdalat were not effective machinery to reduce the piles of NPAs of commercial banks.

**Table 3: NPAs recovered by SCBs through DRTs (Amount in Crore)**

Year	Cases referred under DRTs	NPA Amt. involved	Actual Amt. Recovered	% of recovery to amt involved
2003-04	7,544	12,305	2117	17.20
2004-05	4,744	14,317	2688	18.77
2005-06	3,524	6,123	4710	76.92
2006-07	4,028	9,156	3463	37.80
2007-08	3,728	5,819	3020	51.90
2008-09	2,004	5,819	9797	81.10
2009-10	6,019	4,130	3133	32.00
2010-11	12,872	14,092	3930	27.89
2011-12	13,365	24,100	4100	17.00
2012-13	13,408	31,000	4400	14.10
2013-14	28,258	55,300	5300	9.50
Mean	9044.91	16560.09	4241.64	34.93

In the year 2003-04, the DRT recovered 17.2 % of amount involved under this track. From the above table, it is clear that the No. of cases for the recovery of NPAs referred to DRTs is increasing through the study period and also the amount involved in these cases and the amount recovered through DRTs has increased. DRTs worked efficiently in 2008-09 as they recovered 81.1 % of the total amount involved in NPAs & in later years also the amount recovered by DRTs is quite significant as compared to LokAdalats. But compared to total NPA amount, Banks could recover only negligible amount under DRTs. DRTs were very inadequate to deal with huge piles of NPA accounts. Large number of cases was pending before them. After enactment of SARFAESI Act, number of cases disposed off under DRTs has increased. So the percentage of recovery under DRTs was suddenly increased during the period from 2003-04 to 2008-09.

**Table 4. NPAs recovered by SCBs through SARFAESI Act (Amount in Crore)**

Year	Cases referred under SARFAESI	NPA Amt. involved	Actual Amt. Recovered	% of recovery to amt involved
2003-04	2,661	7,847	1,156	14.73
2004-05	39,288	13,224	2,391	18.08
2005-06	38,969	9,831	3,423	34.82
2006-07	60,178	9,058	3,749	41.40
2007-08	8,39,442	7,263	4,429	61.00
2008-09	61,760	12,067	3,982	33.00
2009-10	78,366	14,249	4,269	30.00
2010-11	1,18,642	30,604	11,561	37.78
2011-12	1,40,991	35,300	10,100	28.6
2012-13	1,90,537	68,100	18,500	27.1
2013-14	1,94,707	94,600	24,400	25.8
Mean	160503.73	27467.55	7996.36	32.03

In the initial period banks was stick up to their traditional method of recovery. Very few cases were covered under SARFEASI tack so % of recovery was only 14 % in the year 2003-04. Banks could recover 61%

amount of the total amount involved under SARFAESI track in the year 2007-08. But then after recovery share of SARFAESI started to decline. In 2013-14 only 25.8 % of amount involved under this track was recovered. However, compared to other recovery channels, SARFAESI provisions have proved to be effective tool for the banks to recover their due amount. It means banks are using this weapon against the big borrowers and trying to reduce their NPA amount.

It is clear from the above table that the number of cases referred to SARFAESI Act and the amount of NPAs involved is increased largely during the study period. This track is speedy track as its gives wide powers to the secured creditor to enforce its security interest without intervention of court.

**Table 5: Percentage Recovery under Various Recovery Tracks**

Tracks	2008	2009	2010	2011	2012	2013	2014	Mean
Lok Adalats	8.2	2.4	1.55	2.87	11.8	6.1	6.2	5.59
DRTs	51.59	81.1	32	27.89	17	14.1	9.5	33.31
SARFAESI	61	33	30	37.78	28.6	27.1	25.8	34.75
Total	7625	7426	7514	15642	14400	23300	31100	15286.71
NPAs	56309	68328	34698	97900	13709	19319	26419	121674.2
					6	4	5	9

**Findings:**

- Gross advances of SCBs were 6809.58 billion which are increased to 68758.48 billion in the study period..
- Gross NPAs of scheduled commercial banks have increased from Rs. 708.61 Billion in 2000-01 to Rs 2641.95 Billion in 2012-13.
- Gross NPA % of SCBs was 10.4 % in 2001-02 which were reduced to 3.8 % in 2013-14.
- Number of cases referred to Lok Adalat was 1, 86, 535 in 2008 and reached to 16,36,957 in 2014. The % of recovery in 2003-04 was only 14.02 % and in 2013-14 6 % amount has recovered from total amount involved under this track. This shows declining trend during study period. In 2008-09, only 1 % amount is recovered. In last seven years, on an average only 5.59 % amount is recovered.
- Even DRT is not proved effective track for recovery of large NPA accounts. The recovery % to amount covered under this track comes to 17.20 % in 2003-04 and 10 % in 2013-14. In the year 2008-09, DRTs could recover 81% of amount involved, which is the highest recovery during the study period. On an average, DRT could recover 33 % in study period.

6. In real sense SARFAESI is an effective tool to reduce piles of NPAs. But in 2003-04, the % of recovery was 15 % and in 2013-14 recovery % of recovery was 28 %. In the year 2007-08, large number of cases referred in which 7263 crores of Rs were recovered which comes to 61 %. This is the highest recovery during the period. On an average, app. 35 % of amount involved is recovered through SARFAESI Act.

**Suggestions:**

- RBI should revise existing credit appraisals and monitoring systems. All the PSBs have to concentrate on credit appraisal and post-loan monitoring system .
- There must be regular follow-up with the borrowers and it is the duty of banker to check proper utilization of funds. Personal visits should be made after sanction and disbursal of credit and further close monitoring of the operations of the accounts of borrowed units should be done periodically.
- If the delinquencies are due to reasons beyond the control of

borrower which are namely draughts, floods, or other natural calamities, the banker should suitably restructure the loans taking into account the genuine difficulty of the borrowers.

4. As a part of curative measures, bankers may resort to Compromise Settlement or One Time Settlement. Lok Adalats and Debt Recovery Tribunals are other ways for the recovery of dues.

5. SARFAESI is the golden weapon in the hands of secured creditor, but the provisions of this Act have to be carefully implemented. Competent Authorized Officer should be appointed to serve the notices under this Act.

6. Notices u/s 13(2) i.e. demand and 13(4) i.e. possession notices should be issued to all eligible accounts.

### Conclusion

The Non-Performing Assets have always created a big problem before banks and FIs. The money locked up in NPAs has great impact on the profitability of the banks. Government of India has been taking various measures to tackle with the problem of nonperforming assets but still a lot needs to be done to curb this problem. The bank management should speed up the recovery process. Among the various recovery tracks, bank should select any of them as per suitability of account. Proper documentation, pre and post loan appraisal policy, proper inspection, timely initiating action against the defaulters, proper implementation Recovery Act etc help in reducing the piles of NPAs. The government should also make more provisions for faster settlement of pending cases.

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