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# MANAGEMENT AND RECOVERY OF NON-PERFORMING ASSET (NPA) ACCOUNTS IN INDIAN BANKS

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## Abstract
Non-Performing Assets (NPAs) are an important concern for Indian banks because they affect profitability, liquidity, capital utilisation and credit availability. Effective NPA management requires sound lending decisions, continuous monitoring, early identification of stressed accounts and appropriate recovery mechanisms. This study examines the management and recovery of NPAs in Indian banks, with particular reference to FY 2020–21 to FY 2024–25. It uses secondary data from the Reserve Bank of India (RBI) and Government of India publications. The study analyses the gross NPA trends of public sector banks and the recovery performance of major legal and institutional mechanisms. The findings indicate a substantial improvement in reported asset quality during the study period. However, differences in recovery rates, legal delays and the risk of future defaults remain important concerns. The paper recommends stronger credit appraisal, early warning systems, suitable resolution strategies and regular monitoring to improve recovery efficiency.

Keywords: Non-Performing Assets, NPA Recovery, Indian Banking, SARFAESI, IBC, Credit Risk Management.

## 1. Introduction
Banks contribute to economic development by accepting deposits and providing loans to individuals, businesses and industries. Regular loan repayment enables banks to maintain liquidity and provide further credit. However, when borrowers fail to meet repayment obligations within the prescribed period, their loan accounts may be classified as Non-Performing Assets.

NPAs reduce interest income, increase provisioning requirements and may weaken the financial position of banks. They can also restrict the availability of credit for productive economic activities. Therefore, banks must focus on preventing NPAs as well as recovering outstanding dues.

Indian banks use several approaches to address stressed accounts, including credit monitoring, restructuring where permitted, negotiated settlements, enforcement of secured assets and insolvency proceedings. The appropriate mechanism depends on the borrower's financial condition, the availability of collateral, legal eligibility and expected recovery. This research examines the major causes of NPAs, the principal recovery mechanisms available in India and the measures banks can adopt to improve asset quality.

## 2. Objectives of the Study
- To understand the meaning and classification of NPAs.
- To identify the major causes of NPA formation in Indian banks.
- To study the principal mechanisms used for NPA management and recovery.
- To analyse trends in public sector banks' gross NPAs during FY 2020–21 to FY 2024–25.
- To suggest measures for improving recovery efficiency and preventing future NPAs.

## 3. Research Methodology
The study adopts a descriptive and analytical research design based entirely on secondary data. Information is obtained from RBI publications, Government of India releases and relevant banking legislation. The study period covers FY 2020–21 to FY 2024–25. Percentage analysis, trend analysis and comparisons of reported recovery-channel statistics are used to interpret the data.

The research does not use primary surveys or confidential bank records. Its findings are limited by the scope and definitions of published data. In particular, a reduction in the outstanding NPA stock should not be interpreted entirely as cash

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recovery because write-offs, upgrades and other changes may also affect the reported amount.

## 4. Meaning, Classification and Causes of NPAs

Under the general RBI prudential framework, a loan or advance is ordinarily classified as an NPA when principal or interest remains overdue for more than 90 days, subject to applicable exceptions and special rules.

Substandard assets: Assets that have remained classified as NPAs for up to 12 months under the general framework. Doubtful assets: Assets that have remained in the substandard category for 12 months under the general framework. Loss assets: Assets identified as having little or no recoverable value, although some recovery may still be possible.

Gross NPA Ratio = (Gross NPAs ÷ Gross Advances) × 100. A lower ratio generally indicates improved reported asset quality, but it must be assessed alongside fresh defaults, recoveries, write-offs and loan growth.

The main causes of NPA formation include inadequate credit appraisal, weak borrower cash flows, economic slowdown, business failures, project delays and insufficient post-disbursement monitoring. In some cases, diversion of funds or deliberate default may also contribute to repayment failure. External shocks, such as natural disasters and market volatility, can further weaken borrowers' repayment capacity.

## 5. Major NPA Management and Recovery Mechanisms

SARFAESI Act, 2002: This Act enables eligible secured creditors to enforce security interests through a statutory process, subject to applicable conditions and exceptions. It can help banks realise secured assets, although disputes, documentation problems and low sale values may delay recovery.

Debt Recovery Tribunals (DRTs): DRTs provide a specialised legal forum for eligible recovery claims of banks and financial institutions. They support formal debt recovery, but case delays and insufficient borrower assets can affect the final outcome.

Insolvency and Bankruptcy Code, 2016: The IBC provides a framework for insolvency resolution and, where appropriate, liquidation of eligible corporate debtors. It may facilitate business revival and value maximisation, although litigation and delays can affect realisation.

Lok Adalats and compromise settlements: These mechanisms help resolve suitable disputes through settlement. One-time settlements may be appropriate where the expected net recovery is better than the likely outcome of prolonged proceedings. All settlements must follow applicable regulations and approved bank policies.

Restructuring and Asset Reconstruction Companies: A viable borrower may benefit from a permitted restructuring arrangement. Alternatively, eligible stressed assets may be transferred to an Asset Reconstruction Company. Both approaches require an assessment of expected recovery, compliance and economic value.

## 6. Data Analysis and Interpretation

### 6.1 Trend in public sector banks' gross NPAs

The following data were reported by the Government of India, citing RBI information. The March 2025 figures were provisional in the July 2025 release.

| As of 31 March | Gross NPAs (₹ crore) | Gross NPA ratio |
|---|---|---|
| 2021 | 6,16,616 | 9.11% |
| 2022 | 5,40,958 | 7.28% |
| 2023 | 4,28,197 | 4.97% |
| 2024 | 3,39,541 | 3.47% |
| 2025 | 2,83,650 | 2.58% |

Source: Ministry of Finance, Government of India, Press Information Bureau, 22 July 2025. Official data release: https://www.pib.gov.in/PressReleaseIframePage.aspx?PRID=2146819□=2®=48

The gross NPA ratio of public sector banks declined from 9.11% in March 2021 to 2.58% in March 2025, a decrease of 6.53 percentage points. Gross NPAs also declined by ₹3,32,966 crore, approximately 54.0%. These figures indicate a substantial improvement in reported asset quality. However, they do not establish that the entire reduction resulted from cash recovery. Recoveries, write-offs, upgrades and other changes can all influence the outstanding NPA stock.

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### 6.2 Recovery through major channels

The RBI's Report on Trend and Progress of Banking in India, 2024–25 reports the following recovery amounts for scheduled commercial banks. FY 2024–25 figures are provisional.

| Recovery mechanism | FY 2023–24 (₹ crore) | FY 2024–25 (₹ crore) | FY 2024–25 rate |
|---|---|---|---|
| Lok Adalats | 3,308 | 4,742 | 2.4% |
| DRTs | 13,527 | 12,363 | 9.5% |
| SARFAESI | 30,416 | 32,466 | 31.5% |
| IBC | 46,340 | 54,528 | 36.6% |
| Total | 93,591 | 1,04,099 | 18.0% |

Source: RBI, Report on Trend and Progress of Banking in India, 2024–25, Chapter IV, Table IV.11, "NPAs of SCBs Recovered through Various Channels." Available via https://www.rbi.org.in/

Total reported recovery through the four channels increased from ₹93,591 crore to ₹1,04,099 crore, an increase of approximately 11.2%. IBC recorded the largest recovery amount in FY 2024–25, at ₹54,528 crore, followed by SARFAESI at ₹32,466 crore. The reported recovery rates were 36.6% for IBC and 31.5% for SARFAESI. These figures indicate their importance in recovery operations during the period. However, the results do not mean that either mechanism is necessarily the best choice for every account because the size, type and legal circumstances of cases differ.

Note: Recovery rates are based on the amount recovered relative to the amount involved in cases referred under the relevant channel. Amounts recovered during a year may relate to cases referred in that year or earlier years.

Challenges in NPA Recovery

Indian banks face several difficulties in recovering NPAs. Legal proceedings may be prolonged, collateral may be difficult to sell and borrower information or security documents may be incomplete. Some borrowers may lack sufficient assets or cash flows to repay outstanding debts. A uniform recovery strategy is not suitable for every account. Banks must evaluate repayment capacity, security, legal position, expected net recovery and resolution time before deciding on an appropriate course of action.

## 7. Suggestions for Improving NPA Management

- Strengthen credit appraisal: Evaluate repayment capacity, cash flows, credit history and collateral before sanctioning loans.
- Introduce early warning systems: Monitor overdue payments, irregular transactions and deteriorating financial indicators.
- Improve loan monitoring: Review the end use of funds and borrowers' financial performance regularly.
- Select appropriate recovery mechanisms: Consider legal eligibility, expected recovery, cost and time.
- Improve collateral documentation: Maintain accurate security records and updated valuations.
- Promote viable restructuring: Assess permitted restructuring where a borrower can realistically resume repayment.
- Train recovery personnel: Strengthen knowledge of credit risk, insolvency procedures, documentation and lawful recovery practices.
- Review performance regularly: Track actual cash recovery, case duration, legal costs and settlement compliance.

## 8. Conclusion

NPA management and recovery are essential for the stability and profitability of Indian banks. The study indicates a substantial improvement in the reported gross NPA position of public sector banks between FY 2020–21 and FY 2024–25. The recovery-channel data also highlight the importance of IBC and SARFAESI in the resolution of stressed assets.

Nevertheless, sustainable improvement requires more than legal recovery. Banks must strengthen credit appraisal, identify stress early, choose suitable resolution mechanisms and learn from previous recovery outcomes. A balanced strategy combining prevention, timely intervention, efficient recovery and responsible borrower treatment can improve asset quality and support the long-term performance of the Indian banking sector.

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