

Asset Quality Management and Recovery Mechanisms in Indian Commercial Banks

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ABSTRACT

The Indian banking sector despite showing strong asset quality, with gross Non-Performing Assets (NPAs) at a historic low of around 2.58 percent as on March, 2025, the issues of NPAs still persisted, leading to stress in unsecured retail loans, including loans in microfinance segments as well as in Micro Small and Medium Enterprises, thereby posing risks if not managed effectively. No doubt, different recovery mechanisms have been adopted by Indian commercial banks in order to effectively recover NPAs, thereby leading to improvement in the asset quality as well as mechanisms for recovering loans. This paper attempts to examine the performance of recovery channels through various channels. The study period covers from 2012-13 to 2024-25, extracted from the secondary data sources published by the Reserve Bank of India. The study found substantial differences in recovery outcomes across various mechanisms, and further it is added that Insolvency and Bankruptcy Code (IBC) has emerged as one of the most effective recovery tools for higher recovery rates.

Keywords: Non-Performing Assets, Recovery Mechanisms, Insolvency, Asset Quality.

Introduction

Performance and health of bank's advances refer to Asset Quality, as it shows how well different advances given generate projected returns as well as how well they are covered with collateral security and their recovery. To say, profitability of banks depends upon interest spread that it generates as a difference between interest earned through different advances given and interest paid to deposit products and hence management of advance portfolio, will help in maintaining not only profitability but also liquidity, capital sufficiency and long-term viability. A low or decreasing asset quality refers to increase in credit risk and capital erosion due to non-repayment of advances and a high or increasing asset quality refers to majority advances are operating in nature and producing income. If there is continuous decline in asset quality of banks then it not only weakens the bank but also pose threat to systematic financial stability. Thus, effective asset quality management is considered to be the spinal cord of sound banking operations and risk governance. According to the Reserve Bank of India, an NPA refers to a loan or advance where interest and/or installment remains overdue for a period of more than 90 days (RBI/2024-25/13 DOR.STR.REC.9/21.04.048/2024-25). Based on it an NPA is classified into three different categories for the purpose of creating provision against NPAs based upon level of severity and duration for which the asset remains non-income generating. The categories of NPAs are as follows in Box 1.

Box 1: Classification of Non-Performing Assets as per Category

Sr. No.	Category	Parameters
1	Standard Assets	Standard asset is one which does not disclose any problems and which does not carry more than normal risk attached to the business. Such an asset should not be an NPA.

2	Sub-standard Assets	An asset would be classified as sub-standard if it remained NPA for a period less than or equal to 12 months.
3	Doubtful Assets	An asset is required to be classified as doubtful, if it has remained NPA for more than 12 months.
4	Loss Assets	A loss asset is one where loss has been identified by the bank or internal or external auditors or by the Co-operation Department or by the Reserve Bank of India's inspection but the amount has not been written off, wholly or partly.

Source: RBI Master Circular DOR.STR.REC.9/21.04.048/2024-25.

Box 2: Different Recovery Mechanisms

Sr. No.	Recovery Mechanism	Details
1	Lok Adalat	Resolution forums, where banker and customer mutually settle small loans through compromise or settlement enabling faster recovery.
2	Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI) Act	Under this act, banks can enforce security interest and recover dues by taking possession of charged assets and selling them without intervention of court after providing reasonable notices.
3	Debt Recovery Tribunal	Specialized court established under Recovery of Debts Due to Banks and Financial Institutions Act, 1993 to faster recovery of debts owed to banks and financial institution.
4	Insolvency and Bankruptcy Code	Deadline based legal framework for resolving business and individual insolvency, enabling creditors to collect debts through a methodical insolvency resolution procedure.

Source: RBI: Report on Trend and Progress (2012).

Continuous rise in non-performing assets leads to pressure on the profitability of bank, it's capacity of providing advances restricts due to non-repayments of loans, provisioning against NPAs need to be increased to maintain stability and also reduces interest income to be received. As a result, prompt NPA recovery is essential for preserving credit discipline and strengthening the balance sheet of banks. Recovery Mechanisms are legal and institutional structures intended to recover the unpaid loans and advances from defaulting borrowers using collateral securities. In India there are multiple recovery mechanisms available having different purposes and are utilized by banks for the purpose of recovering non-repayments of loans and advances, these recovery mechanisms are described as follows in Box 2.

Present study is noteworthy, because it offers a thorough and structured analysis of asset quality management and different recovery strategies adopted by scheduled commercial banks in India for the duration of 2012 to 2025, covering different phases of decline, resolution, and consolidation. The study provides a comprehensive understanding of how institutional recovery frameworks have impacted asset quality over a period of time by observing changes in Gross and Net NPAs, movement in standard and different stressed asset classifications and connecting them with different recovery mechanism performance. The study presents analysis of asset quality management and structural changes in recovery architecture in the banking system using longitudinal and comparative method.

Review of Literature

For undertaking present study, prior literature work relating to non-performing assets, recovery mechanisms and different insolvency reforms in India has been considered. Present study summarizes asset quality management, regulatory frameworks, recovery efficacy and effects of bankruptcy reforms on banking performance. Studies by **Saddy and Kaur (2013)** found that public sector banks recovered more money than private sector banks. The SAFAESI Act and DRTs were more effective recovery channel in comparison to Lok Adalats. **Ibrahim and Thangavelu (2014)** study reveal that Substandard Assets has the largest composition of NPAs across sectors, Gross NPAs have been steadily rising especially in public sector banks and loss assets have significant impact on overall Gross NPAs which means persistent asset quality concerns. The SARFAESI Act and DRTs have greater recovery rates, while Lok Adalats have lower recovery rates (**Singh, 2016**). In another similar study, **Kumar et. al. (2017)** findings shows that there is huge difference between number of cases referred and proportion of cases

that are recovered across recovery channels. SARFAESI Act and DRTs are better performing than Lok Adalats, but the rising number of NPAs still hurts public sector banks' profits. **Das et. al. (2020)** undertook research study to critically analyse progression of insolvency and bankruptcy reforms in India and it found that IBC has made big difference in recovery rates (around 42% realization and better world bank rankings), lesser time for resolution and strengthened creditor rights and corporate discipline. However still problems like delays, lawsuits, cross-border insolvency gaps, makes IBC less effective than it could be. Investigation by **Das (2020)** indicates that the existing bilateral agreement and letter of request framework are insufficient, therefore, implementing a Model Law-based structured cross-border bankruptcy system, accompanied by appropriate protections, will fortify India's insolvency regime and bolster investor confidence. **Srinivas and Karnath's (2021)** undertook the research study, which is aimed at examining the efficacy of different recovery mechanisms in managing non-performing assets held by banks. The major findings of the study reveal that SARFAESI did moderately well, performance of Lok Adalats and DRTs were poor and IBC has shown a much higher recovery rates (between 40 % and 50 %) in recent years. These results show that recovery frameworks need to be strengthened. **Ronghangpi and Kumar (2023)** findings indicates that IBC and SARFAESI have emerged as the most effective recovery mechanisms with higher recovery percentages and amounts, whereas Lok Adalats and DRTs show relatively lower recovery performance despite handling a large volume of cases. **Bajaj et. al. (2024)** seeks to investigate different determinants of NPAs and the rate of recovery of NPAs in public and private sector banks in India and the findings indicate a negative relationship between NPAs and Recovery. The results also suggest that operational inefficiency, lending to priority sector, and collateral security that is not liquid in nature all lead to increase in NPAs. **Malek and Hasan (2025)** in their study seek to examine the influence of digitization on recovery of non-performing assets of nationalized banks with special reference to SARFAESI Act, 2002. The finding revealed that digitization significantly improves recovery efficacy, reduce the recovery time by 10 to 30% enhances transparency, and positively influences NPA recovery rates, though regulatory and infrastructure challenges persist. Existing literature indicates that, though there have been presence traditional recovery mechanisms which were having moderate effectiveness, with the introduction of IBC recovery rates have significantly enhanced, there is stronger credit discipline, and settlement timelines. However, the problems like delays, institutional capacity, regulatory overlaps, and implementation challenges still persist.

Asset Quality of Banks

Asset quality of scheduled commercial banks will be reviewed based on Gross and Net NPAs as well considering the classification of loan asset. The data collected, shows three distinct phases Deterioration Phase 2012-13 to 2017-18, Stabilization and Correction Phase 2018-19 to 2020-21 and Recovery Phase 2021-22 to 2023-24. Table 1 reveals that gross and net NPAs as percent of total advances has gradually declined over the period, even though the proportion of total advances has increased over the period. In Phase I, it is seen that the financial health of the banks has improved in terms of expansion of loans along with reduction in the rate of NPAs in terms of gross and net percentages. In the financial year 2017-18, gross NPAs reached the peak level and this rise was due to factors like aggressive lending during the high-growth period (2004–2011), stress in the infrastructure and corporate sectors, policy paralysis, stalled projects, and the global economic slowdown. The net NPA ratio went up from 1.6% in 2012–13 to 5.6% in 2017–18. This shows that public sector banks (PSBs) are having trouble with rising provisioning costs, falling profits, weak internal recovery procedures, and stress on their capital adequacy. The growing difference between GNPA and NNPA shows that banks were provisioning, but not enough to stop stress from building up.

Table 1: Total Advances and NPAs of Scheduled Commercial Banks

(Amount in Rs. Crores)

Year	Gross Advance	Gross NPA		Net NPA	
		Amount	% of Gross Advance	Amount	% of Gross Advance
2012-13	59,88,277	1,94,053	3.2	98,693	1.6
2013-14	68,75,748	2,63,362	3.8	1,42,421	2.1
2014-15	75,59,760	3,23,335	4.3	1,75,841	2.3
2015-16	81,73,121	6,11,947	7.5	3,49,814	4.3
2016-17	84,92,565	7,91,791	9.3	4,33,121	5.1
2017-18	92,66,210	10,39,679	11.2	5,20,838	5.6
2018-19	1,02,94,463	9,36,474	9.1	3,55,068	3.4

2019-20	1,09,18,918	8,99,803	8.2	2,89,370	2.7
2020-21	1,13,99,608	8,35,138	7.3	2,58,050	2.3
2021-22	1,27,50,006	7,43,640	5.8	2,04,231	1.6
2022-23	1,47,56,637	5,71,546	3.9	1,35,320	0.9
2023-24	1,75,08,590	4,80,818	2.7	1,06,732	0.6

Source: RBI: Statistical Table Relating to Banks in India (2024-25)

During the second phase (from 2018-19 to 2020-21), gross NPAs went down from 11.2% in 2017-18 to 7.3% in 2020-21, and the net NPA fell from 5.6% in 2017-18 to 2.3% in 2020-21. The main factors for this were implementation of Insolvency and Bankruptcy Code (IBC), the strengthening of the SARFAESI process, and large corporate resolutions. Some additional factors that have taken place which includes government's recapitalization of public sector banks (PSBs), written off debts, and focus toward lending to individuals. Third phase (from 2021-22 to 2024-25), shows a change in structure of asset quality of scheduled commercial banks. In this phase, GNPA Ratio has dropped from 5.8% in 2021-22 to 3.9% in 2022-23 and 2.7% in 2023-24. Total GNPA went down from ₹10,39,679 crore in 2023-24 to ₹4,80,818 crore. The Net NPA ratio dropped sharply to 0.6% in 2023-24, this decrease is due to factors like credit monitoring system, better underwriting standards, better recovery efficiency and higher coverage for provisioning.

Table 2: Classification of Loans of Scheduled Commercial Banks

(Amount in Rs. Crores)

Year	Standard Assets		Sub - Standard Assets		Doubtful Assets		Loss Assets	
	Amount	%	Amount	%	Amount	%	Amount	%
2012	50,16,800	97.3	69,500	1.4	61,700	1.2	10,900	0.2
2013	57,95,100	96.8	90,900	1.5	90,000	1.5	12,300	0.2
2014	66,13,796	96.2	1,08,713	1.6	1,37,356	2.0	16,952	0.2
2015	72,39,058	95.7	1,18,581	1.6	1,86,131	2.5	18,213	0.2
2016	75,66,800	92.5	2,25,350	2.8	3,60,285	4.4	25,994	0.3
2017	76,80,400	90.7	2,08,190	2.5	5,50,346	6.5	31,726	0.4
2018	82,30,023	88.8	2,50,940	2.7	7,24,835	7.8	60,411	0.7
2019	93,53,476	90.9	1,88,802	1.8	6,57,779	6.4	87,027	0.8
2020	1,00,22,835	91.8	2,00,816	1.8	5,38,530	4.9	1,56,736	1.4
2021	1,05,64,556	92.7	1,89,195	1.7	4,74,521	4.2	1,71,335	1.5
2022	1,20,08,429	94.2	1,27,974	1.0	4,36,572	3.4	1,77,851	1.4
2023	1,41,95,398	96.2	1,02,806	0.7	2,99,347	2.0	1,69,696	1.1
2024	1,70,27,892	97.3	1,09,902	0.6	2,42,713	1.4	1,28,085	0.7
2025	1,90,17,858	97.8	1,25,320	0.6	1,91,474	1.0	1,14,812	0.6

Source: RBI: Statistical Table Relating to Banks in India (2024-25).

Table 2 shows classification of Loan Assets, it is been observed that during first phase standard assets have dropped from 97.3% in 2012 to 90.7% in 2017 which indicates performing assets are slipping into non-performing categories, credit discipline is getting weaker and large businesses aren't monitored properly. Substandard asset went up from 1.4% in 2012 to 2.8% in 2016, which indicates increasing slippages due RBI's Asset Quality Review which forced banks to treat accounts that are restructured or evergreened as NPAs. Number of doubtful assets grew from 1.2% in 2012 to 6.5% in 2017 which indicates recovery was taking longer time and recovery mechanisms were ineffective. During second phase in 2018, the percentage of standard assets fell to its lowest point, 88.8% which indicates that stress on the quality of assets had fully shown up on bank balance sheets. Sub-standard assets stabilized and began declining from 2.7% in 2018 to 1.8% by 2019–2020, suggesting reduced fresh slippages and improved underwriting discipline. In the third phase, Standard assets steadily rose from 92.7% in 2021 to 97.8% by 2025 which indicates credit quality has returned to normal. In 2024-25, Substandard assets had dropped substantially to 0.6% which indicates drop in new assets slipping into NPAs. Doubtful assets fell sharply from their previous peak to only 1.0% by 2025 which indicates long-overdue strained accounts were finally settled and recovery frameworks became more efficient. There was decrease in loss assets as well from 1.5% to 0.6% in 2025 which indicates the process of cleaning up the balance sheet is completed and only fewer accounts cannot be recovered.

Recovery Mechanisms

Different recovery mechanisms like Debt Recovery Tribunal (DRTs), Lok Adalat, Insolvency and Bankruptcy Code (IBC) and Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI) will be reviewed to know their trends and efficacy for scheduled commercial banks. Table 3 shows the number of cases referred to different recovery mechanisms. From the table, it is clear that, during the period of 2012-13 to 2017-18, Lok Adalat has the maximum share of 80% to 90% of total cases referred during this phase. Lok Adalat continues to dominate accounting for 93-98% of total case, rising to 59,86,790 cases (98%) in 2019-20. However, SARFAESI usage grew noticeably in 2018-19 with 2,35,437 cases (5%), indicating that secured asset enforcement had gotten stronger. IBC referrals which still make up less than 1% of all cases, have been slowly rising, indicating growing acceptance of insolvency resolution for large corporate accounts. Third phase (from 2021-22 to 2024-25), shows a significant surge in number of total cases referred across recovery channels, particularly Lok Adalat but without significant diversification. Total Cases increase significantly from 87,87,928 in 2021-22 to 1,51,63,576 in 2024-25. Lok Adalat alone has a total share of 97-98% of total cases during this phase, with total number referred cases reaching 1,49,12,705 cases in 2024-25. Although SARFAESI referrals remained between 1-3%, their proportional contribution did not expand significantly even though there was significant improvement in asset quality during this period. The number of DRT cases remained very low, dropping to about less than 1% of the total, indicating reduced reliance on lengthy tribunal processes. IBC referrals remained to be statistically negligible in number (less than 0.01% of all cases), which shows that it is a high value resolution mechanism rather than a volume-based channel.

Table 4 shows recovery through Lok Adalat. The table reflects that during the period from 2012-13 to 2017-18 the number of cases referred rose significantly from ₹ 6,600 crore in 2012-13 to ₹72,000 crore in 2015-16 and then went down to ₹45,728 crore in 2017-18. This rise indicates growing reliance in Lok Adalat as an alternative dispute resolution mechanism for retail and priority sector loans. The second phase (from 2018-19 to 2020-21), shows that amount referred rose significantly from ₹53484 crore in 2018-19 to ₹67801 crore in 2019-20, while the amount recoveries improved in 2019-20 to ₹4211 crore, achieving a recovery rate of 6%, one of the highest over the period. During the third phase (from 2021-22 to 2024-25), cases referred increased significantly from ₹1,19,006 crore in 2021-22 to ₹1,97,907 crore in 2024-25, indicating increased use of Lok Adalat for small and written-off accounts. However, the recovery percentage sharply declined to 2% consistently during 2021-22 to 2024-25.

Table 3: Number of Cases referred to different Recovery Channels by Scheduled Commercial Banks during 2012-13 to 2024-25

Year	Recovery Mechanisms				Total
	Lok Adalat	DRTs	SARFAESI Act	IBC	
2012-13	8,40,691 (80)	13,408 (1)	1,90,537 (18)	-	10,44,636
2013-14	16,36,957 (88)	28,258 (2)	1,94,707 (10)	-	18,59,922
2014-15	29,58,313 (94)	22,004 (1)	1,75,355 (6)	-	31,55,672
2015-16	44,56,634 (96)	24,537 (1)	1,73,582 (4)	-	46,54,753
2016-17	35,55,678 (94)	32,418 (1)	1,99,352 (5)	37 (0)	37,87,485
2017-18	33,17,897 (96)	29,345 (1)	91,330 (3)	704 (0)	34,39,276
2018-19	40,87,555 (93)	51,679 (1)	2,35,437 (5)	1,152 (0)	43,75,823
2019-20	59,86,790 (98)	33,139 (1)	1,05,523 (2)	1,986 (0)	61,27,438
2020-21	19,49,249 (96)	28,182 (1)	57,331 (3)	536 (0)	20,35,298
2021-22	85,06,741 (97)	30,651 (0)	2,49,645 (3)	891 (0)	87,87,928
2022-23	1,37,72,958 (98)	56,198 (0)	1,87,340 (1)	1,262 (0)	1,40,17,758

2023-24	1,23,41,783 (98)	30,806 (0)	2,16,571 (2)	1,004 (0)	1,25,90,164
2024-25 (P)	1,49,12,705 (98)	34,430 (0)	2,15,709 (1)	732 (0)	1,51,63,576
Total	7,83,23,951 (97)	4,15,055 (1)	22,92,419 (2)	8,304 (0)	8,10,39,729

Source: RBI: Annual Report, Various Issues.

Notes: P for provisional data.; Figures in parentheses indicate percentage of total.

Table 5 shows recovery through Debt Recovery Tribunals. It is observed that during first phase i.e. period from 2012-13 to 2017-18, reflects a phase of increasing use of Debt Recovery Tribunals (DRTs) amidst deteriorating asset quality and weakening recovery efficiency. The number of cases referred increased steadily from ₹31,000 crore in 2012-13 to ₹1,33,095 crore in 2017-18, indicating that banks increasingly used formal adjudicatory mechanisms to address the issue of rising NPAs. During the second phase (from 2018-19 to 2020-21), it is been observed in 2018-19, that the amount referred increased significantly to ₹2,68,413 crore, the highest level in the dataset until that point, yet the recovery rate declined to just 4%. Although recoveries improved marginally in 2019-20 to ₹9,986 crore, the recovery percentage remained subdued at 5%. In 2022-23, referrals again rose significantly to ₹4,02,753 crore, with recovery rising substantially to ₹39,785 crore; however, the recovery percentage normalized to 10%, reflecting the impact of large value inflows. Similarly, 2023-24 recorded a high recovery rate of 17% despite moderate referral volumes, indicating improved operational efficiency.

Table 4: Recovery of loans through Lok Adalat

(Amount in Rs. Crore)

Year	Amount Cases Referred	Amount Recovered	% Recovered
2012-13	6600	400	6
2013-14	23200	1400	6
2014-15	31000	1000	3
2015-16	72000	3200	4
2016-17	36100	2300	6
2017-18	45,728	1,811	4
2018-19	53,484	2,750	5
2019-20	67,801	4,211	6
2020-21	28,084	1,119	4
2021-22	1,19,006	2,778	2
2022-23	1,88,135	3,774	2
2023-24	1,81,934	3,308	2
2024-25 (P)	1,97,907	4,742	2
Total	8,83,767.79	24,575.84	23

Source: RBI: Annual Report, Various Issues.

Note: P for provisional data.

Table 5: Recovery of Loans through Debt Recovery Tribunals

(Amount in Rs. Crore)

Year	Amount Cases Referred	Amount Recovered	% Recovered
2012-13	31000	4400	14
2013-14	55300	5300	10
2014-15	60400	4200	7
2015-16	69300	6400	9
2016-17	100800	10300	10
2017-18	133095	7235	5
2018-19	268413	10552	4
2019-20	205032	9986	5
2020-21	225361	8113	4
2021-22	68956	12035	18
2022-23	402753	39785	10
2023-24	79414	13527	17
2024-25 (P)	129516	12363	10
Total	1515707.71	113902.08	8

Source: RBI: Annual Report, Various Issues.

Note: P for provisional data.

Table 6: Recovery of Loans through SARFAESI Act

(Amount in Rs. Crore)

Year	Amount Cases Referred	Amount Recovered	% Recovered
2012-13	68100	18500	27
2013-14	95300	25300	27
2014-15	156800	25600	16
2015-16	80100	13200	17
2016-17	141400	25900	18
2017-18	81879	26380	32
2018-19	258642	38905	15
2019-20	196582	34283	17
2020-21	67510	27686	41
2021-22	121718	27349	23
2022-23	111359	30957	28
2023-24	119554	30416	25
2024-25 (P)	103180	32466	32
Total	1065840.78	249527	23

Source: RBI: Annual Report, Various Issues.

Note: P for provisional data.

Table 7: Recovery of Loans through Insolvency and Bankruptcy Code

(Amount in Rs. Crore)

Year	Amount Cases Referred	Amount Recovered	% Recovered
2017-18	9929	4926	49.6
2018-19	145457	66440	45.7
2019-20	224935	104117	46.3
2020-21	135319	27311	20.2
2021-22	197959	47409	23.9
2022-23	138715	54161	39.0
2023-24	163943	46340	28.3
2024-25 (P)	149045	54528	36.6
Total	1165302	405232	34.8

Source: RBI: Annual Report, Various Issues.

Note: P for provisional data.

Table 6 shows recovery through SARFAESI Act. It is seen that during first phase i.e. period from 2012-13 to 2017-18, the amount of cases referred increased from ₹68,100 crore in 2012-13 to ₹1,56,800 crore in 2014-15, indicating increased use of secured asset enforcement during the phase of deteriorating asset quality. However, referrals declined sharply to ₹80,100 crore in 2015-16 before rising again in 2016-17, suggesting periodic strategic adjustments by banks. The second phase (from 2018-19 to 2020-21) shows substantial volatility in referral volumes along with notable changes in recovery efficiency. Third phase i.e. period from 2021-22 to 2024-25 shows that referral amounts ranged between ₹1,03,180 crore and ₹1,21,718 crore, suggesting a steady strategic use of the mechanism rather than aggressive expansion. Recovery percentages remained strong, fluctuating between 23% and 32%, significantly higher than Lok Adalat and DRT recovery ratios during the same period.

The recovery through Insolvency and Bankruptcy Code is shown in Table 7. It is seen that during first phase i.e. period from 2012-13 to 2017-18, period from 2012-13 to 2016-17 shows no activity under the Insolvency and Bankruptcy Code (IBC), as the framework became operational only in 2016. The year 2017-18 marks the effective beginning of IBC-based recoveries, with ₹9,929 crore worth of cases referred and ₹4,926 crore recovered, yielding an exceptionally high recovery rate of 49.6%. Second phase (from 2018-19 to 2020-21) reflects number of cases referred rose significantly from ₹1,45,457 crore in 2018-19 to ₹2,24,935 crore in 2019-20, indicating banks' increased usage of insolvency proceedings for resolving large stressed corporate exposures. Third Phase (from 2021-22 to 2024-25) shows that referral amounts remained substantial, ranging between ₹1,38,715 crore and ₹1,97,959 crore, indicating continued usage of insolvency proceedings for large exposures. Total recovery under IBC during the study period amounted to ₹4,05,232 crore, with an overall recovery rate of 34.8%, making it the most effective recovery mechanism in value terms among all channels analysed.

Recommendations

The study shows that non-performing assets of banks have gradually decreased over the period, showing asset quality of banks in upward trend, with persistence of structural problems in the delivery and distribution of loans in different sectoral segments of Indian economy. It is also equally observed that with robust recovery mechanisms the settlement and collection of such non-performing assets under different category has improved though at the fundamental level of banks filtering in sanctioning of loans need to be executed for early warning and protection against falling such categories of loans in portfolio of banks. The following are some of the recommendations and policy suggestions:

- Strengthening in the value-based recovery mechanisms through IBC and SARFAESI Act with greater importance as these instruments have proven themselves with higher recovery efficiency in value terms and stronger impact on reducing doubtful assets.
- Increasing the operational efficiency of Debt Recovery Tribunals with the help of capacity expansion, use of digital case management technologies, and quicker adjudication procedures should be used to solve procedural delays and backlog difficulties.
- Strategic use of Lok Adalat by banks and financial institution specifically in dealing retail segments and small ticket settlement mechanism rather than relying upon it as primary tool for systematic NPA resolution.
- Early intervention and monitoring systems be adopted so as to reduce the future accumulation of doubtful assets, banks should strengthen early warning systems to prevent slippages from standard asset into category of substandard assets.
- Integrated recovery strategy by banks should be incorporated and implemented for unique recovery strategy which matches the kind and magnitude of default with the best mechanism.
- Improvement of asset valuation and auction procedures through SARFAESI Act and IBC for a transparent and effective asset valuation framework.
- Continuous review of recovery frameworks by Institutional improvements, guided by periodic assessments of recovery channels based on recovery ratios and resolution schedules.
- Emphasis on Preventive Asset Quality Management for maintaining long-term asset quality improvement after recovery, the focus should move to sectoral risk assessment, careful credit appraisal, and ongoing borrower monitoring.

Conclusion

This study focused on the asset quality of banks and various recovery mechanisms introduced by the Reserve Bank of India in order to curtail the overhang non-performing assets of commercial banks in India for the period from 2020-21 to 2024-25, based on the secondary data sources. The study found substantial differences in recovery outcomes across various mechanisms, and further it is added that Insolvency and Bankruptcy Code (IBC) has emerged as one of the most effective recovery tools for higher recovery rates. In other words, the study found that the asset quality and recovery efficacy of commercial banks has improved over the past fourteen years, with fundamental changes in the structure of the Indian banking sector as revealed by analysis of three separate periods. In the first period, the extended duration of inefficiencies in recovering stressed accounts and the delay in recognising them resulted in a dramatic increase in gross non-performing assets, i.e. the decline in standard assets and the increase in doubtful assets. The second phase occurred as the use of IBC increased and the effectiveness of SARFAESI continued, with the peak of recognised stresses occurring concurrently with a slow decline in doubtful and substandard assets. The third phase exhibited substantial enhancements in indicators of asset quality, resulting in the return to historical peaks of standard assets and the reduction of both gross NPAs to multi-year lows. Amongst the recovery mechanisms, the IBC is considered to be the most effective value-based recovery tool, resolving large corporate NPAs, and providing a significant source of value when converting the doubtful asset stock. To sum up, the study suggests that recovery methods, either through enforcement or through legally founded authority, have played a larger role in the structural enhancement of asset quality than high volume compromise settlements.

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