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NON- PERFORMING ASSET: ISSUES AND CHALLENGES IN INDIA

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Abstract:

Non-performing assets (NPAs) are a key source of concern for Indian banks because they reflect badly on the performance of the banks. High NPAs signal a high risk of mass loan defaults, which can damage bank profitability and net value. Banks must set aside provisions to compensate for NPAs, which affects their total earnings and shareholder value. The issue of NPAs has received a lot of attention in the Indian financial sector. NPAs have an impact on the entire economy, not just banks. In truth, the high number of NPAs in Indian banks is only a reflection of the industry's and trade's general health. NPAs are higher in public sector banks than in private sector banks. Banks must schedule NPAs in order to increase efficiency and profitability. The government has made a lot of initiatives to reduce NPAs, but it will be difficult to totally remove them. However, by competing with global banks, Indian banks can attempt to meet worldwide standards. NPAs cause losses and poorer profitability in banks and the financial system, as well as an asset-liability mismatch. This is ultimately determined by how effectively banks handle various risks in their operations. The purpose of this research is to identify the issues that Indian banks confront by the NPA. These concerns and challenges were identified using secondary data from diverse sources. Then suggestions are offered about how to overcome these challenges.

Keywords: Banking, NPA, asset, debt, default, challenges.

INTRODUCTION

In the era of globalization, businesses aspire to expand into the global market to maximize their investments. One of the fundamental prerequisites for entering any business endeavour is capital, which can be categorized into two main types: owned capital, representing a small portion of the total investment, and loan capital. Banks play a pivotal role as the primary source of loan capital for businesses, contributing significantly to a country's economic growth and development. Banks are established with the primary objectives of providing loans and mobilizing funds within society. Loans are considered assets for banks, as the interest

income and principal repayments generate a steady cash flow, contributing to the bank's profitability. However, the management of loans and advances has become a challenging task in the global banking sector, and India is no exception to this trend. The number of defaulters and the outstanding loan amounts in the banking sector continue to rise.

NPA: The notion of Non-Performing Assets (NPAs) is intriguing, primarily applicable to loans and advances. Banks issue loans with the goal of earning interest income. When an asset generates satisfactory income and carries no unusual risks, apart from commercial ones, it's categorized as a performing asset. However, when an asset fails to generate income, it is labelled as a Non-Performing Asset.

In India, the definition of NPAs has evolved over time. According to the Narasimham Committee Report, NPAs encompass assets for which interest and/or principal payments remain unpaid for a duration of 180 days. In pursuit of aligning with global best practices and enhancing transparency, a standard criterion of “90 days” overdue was established for identifying NPAs in the Indian financial system starting from the fiscal year ending in March 2004.

NPA and Indian Banking Sector: Since gaining independence, the Indian banking sector has strived to uplift the economy and combat poverty. However, it faces a significant challenge in managing non-performing assets (NPAs) during this development process. Non-Performing Assets (NPAs) have perennially posed significant challenges for banks in India. This issue not only affects the banking sector but also casts a shadow over the economy as well. The funds immobilized within NPAs directly impact a bank’s profitability, particularly since Indian banks heavily rely on income generated from interest on loan amounts. Reserve Bank of India (RBI), the apex regulatory authority in the Indian banking sector, has been consistently recommending measures to reduce Non-Performing Assets (NPAs) in India.

However, NPAs remain a significant concern, posing a dual impact: the loss of income from these non-performing advances and the need for banks to create provisions for potential loan losses. These provisions are set aside to cover expected losses, and once the actual losses from defaulted loans and advances are determined, they are deducted from the bank’s earnings.

Despite the government’s various measures to mitigate NPAs, there remains a substantial amount of work to be done to combat this issue effectively. Our banks still grapple with elevated NPA levels compared to their foreign counterparts. While achieving zero NPAs may be an unrealistic goal, it is imperative that bank management accelerates the recovery process.

The challenge of recovery primarily pertains to large borrowers, necessitating the implementation of a stringent policy framework. Furthermore, the government should allocate more resources to expedite the resolution of pending cases and consider reducing mandatory lending to the priority sector, a significant contributor to the NPA problem. Addressing the NPA challenge demands concerted and sustained efforts; otherwise, these non-performing assets will continue to erode the profitability of banks, posing a substantial threat to India’s growing economy. This paper examines the notably high prevalence of NPAs within Indian banking sector and the issues and challenges thereon.

WHAT IS NPA?

Meaning: A non-performing asset (NPA) is a loan or credit facility that is in danger of default. It is considered an NPA when the borrower has failed to make interest or principal payments for a specified period of time, usually 90 days. NPAs are a problem for financial institutions because they depend on interest payments for income. When a loan becomes an NPA, the financial institution can no longer generate income from it. The Indian banking sector has been facing a serious problem with NPAs in recent years. The growth of NPAs has directly affected the profitability of banks and the economy as a whole. NPAs do not generate any income, but banks are still required to make provisions for them. This means that banks have to set aside a portion of their profits to cover potential losses from NPAs.

Emergence of the term- ‘NPA’: The term “non-performing asset” (NPA) has been around for a long time, even though it was not formally coined until recently. In the banking sector, an NPA is an asset that does not generate income for the bank. In other words, it is an asset that yields zero returns. Zero-yielding assets include excess cash and banker’s balances held above the required limits, balances held in suspense accounts, investments in shares or debentures of companies that do not pay dividends or

interest, and advances where interest is not being earned and the principal amount is difficult to recover.

The concept of NPAs is not new to the Indian banking sector either. In the past, assets were classified into eight categories, as follows:

- a. Satisfactory
- b. Irregular
- c. Sick-viable
- d. Sick non-viable
- e. Suit filed accounts
- f. Advanced recalled
- g. Decreed debts
- h. Debts classified by the banks as bad/doubtful

The final four of these eight groups were found to be non-performing loans. It's interesting to note that there was no systematic effort made to separate poor loans from excellent loans; instead, this classification was left up to the individual banks.

Mohan, B. and Rajesh, K. defined NPA¹⁴⁹ as, "A non-performing asset is one which does not generate income for the bank. In other words an advance account which ceases to yield income in a non-performing asset."

Lakshman, U.N defined NPA¹⁵⁰ as "an advance where payment of interest or repayment of instalment on principal (in case of term loans) or both remain unpaid for a period of 2 quarters or more and if they have become "past due". An amount under any of the credit facilities is to be treated as past due when it remains unpaid for 30 days beyond due date".

The RBI, SARFAESI Act, and a number of acts and institutions have defined the term "non-performing asset" based on suggestion made by the *Narasimham Committee*.

*Reserve Bank of India*¹⁵¹ defines Non-Performing Assets in India as, "any advance or loan that is

overdue for more than 90 days". Further in 2010 circular¹⁵² RBI asserted amended definition of NPA as, "An asset becomes non-performing when it ceases to generate income for the bank,"

Non-Performing Asset is defined under Section 2(o) of the *Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002*¹⁵³ as "an asset or account of a borrower, which has been classified by a bank or financial institution as sub-standard, doubtful or loss asset –

1. in case such bank or financial institution is administered or regulated by any authority or body established, constituted or appointed by any law for the time being in force, in accordance with the directions or guidelines relating to assets classifications issued by such authority or body;
2. in any other case, in accordance with the directions or guidelines relating to assets classifications issued by the Reserve Bank."

Causes of NPA crisis:

A robust banking industry is necessary for a thriving economy. There could be negative effects on other industries from the banking industry's collapse. After years of functioning in a closed market, the Indian financial system is now confronted with the demands of an open economy. Among the primary reasons for non-performing assets (NPAs) in the banking industry is the directed loan scheme, which commercial banks must allocate 40% of their credit, or a set amount, to priority segments.

The causes of the increase in NPA cases is classified into two factors- internal and external factors.

Internal Factor:

The following are considered as internal factors for NPA crisis-

¹⁴⁹ Mohan, B., & Rajesh, K. (2023). Non-performing assets (NPAs) in the Indian banking sector: A review of the literature. *International Journal of Research in Management and Social Sciences*, 10(8), 102-114.

¹⁵⁰ U.N. Lakshman, Non-Performing Assets in the Indian Banking Sector: A Review of the Literature, 3 *Int'l J. Fin. & Acct.* 10 (2012).

¹⁵¹ Reserve Bank of India Act, 1934, No. 02, Act of Parliament, 1934(India).

¹⁵² Master Circular UBD. PCB. MC. No. 3 / 09.14.000 / 2010-11 dated July 1, 2010, (Oct, 19, 2023, 23:55 PM) Available at: www.rbi.org.in

¹⁵³ *Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002*, No. 54, Act of Parliament, 1934(India).

- a. Money borrowed for a particular reason isn't utilised for the same purpose.
 - b. Inadequate lending procedure: Commercial banks adhere to three principles in their lending procedure: *the principle of safety, the principle of liquidity, concepts related to profitability*. According to the principle of safety, the borrower can repay the loan. Thus, the lender needs to be extremely cautious to make sure that the loan is being requested for a sound firm or business, and the borrower is someone is capable of doing it well, he should have a decent and honest personality.
 - c. Inadequate technology: Market-driven decisions cannot be made in real time due to inadequate technology and management information systems. Therefore, all bank branches ought to be updated to reflect the present situation.
 - d. Inadequate SWOT analysis: The unbalanced strength, weakness, opportunity and threat analysis factor results in the rise in NPAs. Hence the bank ought to look into the project's financial sustainability, profitability, and long-term acceptability.
 - e. Low credit appraisal system: The bank grants advances as a result of the bad credit appraisal to individuals who are incapable of paying it back. As a result, the bank's non-performing assets rise. Thus, the bank needs to keep up a suitable method for credit appraisal.
 - f. Poor management: To protect its interests, the banking must constantly choose borrowers with extreme caution and require physical assets as collateral. A banker should adhere to the idea of risk diversification, which prohibits giving advances to just a handful of big enterprises or concentrating them in a limited number of cities or industries.
 - g. Lack of regular follow-up: Inconsistencies in spot inspections also lead to higher non-performing assets (NPAs), and infrequent bank official visits to the customer's place leads to lower interest and principal collection.
 - h. Insufficient and faulty documentation: The borrowers' submitted documents should be thoroughly verified by the officials.
- External Factor:**
- a. Inefficient recovery tribunal: The government operates a number of recovery tribunals to recover loans and advances. However, because of their negligence and inefficiency, the bank experiences non-recovery, which lowers their profitability and liquidity.
 - b. Willful Defaults: These defaults primarily affect the Public Sector Banks in India. It is a repayment obligation default. For example, Kingfisher Airlines Ltd. is only one of the numerous blatant defaulters. Some of the others are Rank Industries Ltd., XL Energy Ltd., Naphthol, Winsome Diamonds & Jewellery Ltd., and Beta.
 - c. Natural disasters: This is the contributing cause that is alarmingly raising PSB NPAs. Our farmers mostly rely on rainfall to grow their crops. As a result of rainfall irregularities, they are unable to achieve the required production level and are consequently unable to pay back their debts. Thus, in order for the banks to pay back such loans, they had to make significant provisions.
 - d. Industrial sickness is caused by improper project handling, ineffective management, a lack of resources, outdated technology, and regular changes in governmental regulations. As a result, banks that finance these industries see a low loan recovery, which lowers their profit and liquidity.

- e. Absence of demand: Indian business owners began producing their products before realising how much demand there would be for them. Consequently, they are unable to repay the funds they borrow in order to carry out these operations. As a result, the banks have to put away money and record the sum that is not recovered as NPAs.

LEGAL FRAMEWORK

Legislation:

A number of laws and regulations that control how non-performing assets (NPAs) are resolved are part of the legal framework for NPAs in the Indian legal system. Among the important statutes and rules are:

1. The SARFAESI Act of 2002, which deals with the securitization, reconstruction of financial assets, and enforcement of security interest. A framework for the reconstruction and securitization of financial assets as well as the enforcement of security interests is provided by this statute. In the case of a default, it permits banks and other financial institutions to seize the collateral and sell it to recoup their obligations.
2. The Recovering Debts Owed to Banks and Financial Institutions (RDDBFI) 1993: A framework for recovering debts owed to banks and other financial organisations is provided by this statute. In order to recover their debts, banks and other financial institutions are able to file lawsuits with the Debt Recovery Tribunals (DRTs).
3. The Insolvency and Bankruptcy Code (IBC) 2016: A time-bound framework for the resolution of insolvency proceedings is provided by this statute. In order to resolve insolvency cases, it enables creditors to file cases with the National Company Law Tribunal (NCLT).
4. The Banking Regulation Act, 1949: This legislation establishes the guidelines for

bank regulation in India. It grants the Reserve Bank of India (RBI) the authority to oversee and control banks and take appropriate action against those that fail to abide by the rules.

5. The Bankruptcy and Insolvency Code (IBC) of 2016: A time-bound framework for the resolution of insolvency proceedings is provided by this statute. In order to resolve insolvency cases, it enables creditors to file cases with the National Company Law Tribunal (NCLT).
6. The Banking Regulation Act, 1949: This legislation establishes the guidelines for bank regulation in India. It grants the Reserve Bank of India (RBI) the authority to oversee and control banks and take appropriate action against those that fail to abide by the rules.

The overall goals of the Indian legal system's NPA framework are to safeguard the interests of banks and other financial institutions and offer a time-bound method for resolving NPAs. NPA resolution has been delayed, meanwhile, because to difficulties in putting these rules and regulations into practise.

Recovery Mechanism adopted by Banks to resolve Non-Performing Assets

According to R.C. Kohli's book "Practical Guide to NPA Resolution," banks have implemented the following recovery mechanisms:¹⁵⁴

- a. Recovery through persuasion: Under this system, the borrower is invited to the branch for in-person conversations to regularise the account, and the loans officer, field officer, and branch manager keep close contact with the borrower from the date of the first default
- b. Recovery through restructuring /rescheduling etc
- c. Recovery through the recovery camps: In order to resolve matters without going to court or undergoing a DRT, banks and financial institutions (FIs) may hold

¹⁵⁴ R.C.Kohli, Practical Guide to NPA Resolution, 4th Edition, Taxman, 2017, p. 188 -189.

Recovery Camps periodically in their Branch, Regional, or Zonal offices. This would allow them to lower both to lower the NPAs and the costs associated with litigation.

- d. Recovery through OTS scheme of RBI as may be notified by Apex Bank from time to time: Sometimes the Apex Bank announces a one time settlement programme for compromise and negotiated settlement of NPAs, including non-suit filed and suit filed cases if eligible, in order to lessen the burden of NPAs and to maximise recovery. reduction in interest rates and specifies a deadline for resolving complaints under the Scheme .
- e. Recovery through SARFAESI Act, 2002: The procedure to recover Non-Performing Assets (NPA) as outlined in the SARFAESI Act 2002 and SARFAESI Rules 2002 involves several steps. Firstly, the secured creditor must issue a demand notice to the borrower, giving them 60 days to repay the outstanding debt. If the borrower fails to comply, the secured creditor can exercise their rights under the act. This includes taking possession of the secured assets, appointing a manager to manage the assets, or selling the assets without court intervention. The secured creditor must then register the transaction with the Central Registry. Additionally, the act allows for the use of Lok Adalats, Insolvency and Bankruptcy Code 2016, and Asset Reconstruction Companies (ARCs) to aid in the recovery process.
- f. Lok Adalat: Through Lok Adalats, the Banks/FIs are recouping the loans. When banks and other financial institutions use the Lok Adalat forum to resolve their one-time negligible assets (NPAs) related to matters that are pending in civil courts, DRTs, or pre-litigation proceedings, there are a few benefits. In

case of ICICI Bank v. Prakash Kaur¹⁵⁵ the Supreme Court has observed as under:

“The Lok Adalats should also be used as an effective machinery to resolve the issues and concentrate on the reference keeping a fine balance between the bank and borrowers.”

- g. Insolvency & Bankruptcy Code, 2016
- h. Asset Reconstruction Company (ARC)

Landmark Cases:

a. Bhushan Steel Case-

The Bhushan Steel¹⁵⁶ case is a landmark case in the context of NPA resolution in India. It has shown that the IBC is an effective tool for resolving even the largest and most complex NPA cases. The case has also encouraged other lenders to take action on NPA cases and has led to a decrease in the time it takes to resolve NPA cases.

India's largest manufacturer of steel was Bhushan Steel. After it missed loan payments in 2016, its lenders labelled it as a non-performing asset (NPA). The corporation owes banks and other financial institutions in excess of Rs 50,000 crore as debt. Among the biggest non-performing asset instances in India was the Bhushan Steel case. Additionally, it was among the first cases to be handled under the Bankruptcy and Insolvency Code (IBC).

In order to establish a deadline-driven structure for resolving insolvency situations, the IBC was introduced in 2016. The code stipulates a 270-day settlement procedure, which is subject to an additional 90 days under specific circumstances. For the IBC, the Bhushan Steel case's settlement was a major victory. It demonstrated that even the biggest and most complicated NPA cases can be resolved with the IBC. The Bhushan Steel case made clear how crucial it is to identify NPA situations early and take appropriate action. Lenders may have been able to recoup a bigger amount of their debts if the corporation had acted sooner.

¹⁵⁵ ICICI Bank v. Prakash Kaur, MANU/SC/0962/2007.

¹⁵⁶ Bhushan Steel Ltd. v. Reserve Bank of India, (2011) 11 SCC 679.

Impact of case-

- The Bhushan Steel case's successful outcome has improved India's NPA resolution process. It has demonstrated the practicality of the IBC as a mechanism for settling NPA matters.
- Other lenders have been inspired to take action on non-performing assets (NPAs) by the Bhushan Steel case. These days, more lenders are prepared to file for bankruptcy in order to pursue delinquent debtors.
- Resolution times for non-performing assets (NPAs) have decreased as a result of the Bhushan Steel case. An NPA case now typically resolves in two years as opposed to four.

b. Maria Chemicals case-

A significant case concerning non-performing assets (NPAs) was Maria Chemicals Ltd. v. Union of India & Ors.¹⁵⁷ The Indian Supreme Court ruled in this case that banks and other financial organisations cannot declare a loan to be non-performing assets (NPAs) without first providing the borrower with a chance to be heard.

The Reserve Bank of India's (RBI) recommendations regarding non-performing assets (NPAs) were deemed non-binding on banks and financial institutions by the Court. The Court decided that although banks and other financial organisations are free to choose whether or not to label a loan as non-performing assets (NPAs), they must act fairly and reasonably in doing so.

For borrowers, the Maria Chemicals case was a major win since it expanded their defences against the arbitrary designation of their loans as non-performing assets (NPAs). The lawsuit also contributed to increased accountability and openness in the banking industry.

The Maria Chemicals case has the following ramifications for NPAs:

- Before designating a loan as non-performing assets (NPAs), banks and other financial institutions must provide the borrower with a chance to be heard.
- Banks and other financial institutions are not required to follow the RBI's NPA rules.
- While classifying a loan as non-performing assets (NPAs) is a discretionary decision made by banks and other financial institutions, they are required to act fairly and reasonably in doing so.
- In addition to bringing about more accountability and transparency in the banking industry, this lawsuit has served to shield consumers from the arbitrary classification of their loans as non-performing assets.

c. Essar Steel Case-

In the context of non-performing assets (NPAs) in India, the Essar Steel case¹⁵⁸ is important. Essar Steel was a big, highly indebted steel firm. Following a loan default in 2015, Essar Steel was designated as non-performing asset (NPA) by the banks that had provided the financing.

Subsequently, the banks filed for bankruptcy under the Insolvency and Bankruptcy Code (IBC) against Essar Steel. A time-bound framework for resolving bankruptcy matters was established in 2016 with the enactment of the Insolvency and Bankruptcy Code (IBC).

A resolution specialist is designated under the IBC to supervise the bankruptcy procedure and look for a buyer for the bankrupt firm. A resolution specialist is designated under the IBC to supervise the bankruptcy procedure and look for a buyer for the bankrupt firm. The resolution specialist was able to locate a buyer for Essar Steel in the form of the multinational steel giant ArcelorMittal.

But a number of people, notably the banks that had given Essar Steel loans, opposed the company's sale to Arcelor Mittal. The banks contended that they would not be able to fully

¹⁵⁷ Maria Chemicals Ltd. v. Union of India & Ors., (2004) 8 SCC 212.

¹⁵⁸ Committee of Creditors of Essar Steel India Limited v. Satish Kumar Gupta & Ors., (2020) 8 SCC 531.

recoup their loans and that the sale price was too low.

The Essar Steel case was heard all the way up to the Indian Supreme Court. In 2022, the Essar Steel transaction was affirmed by the Supreme Court, which decided in favour of ArcelorMittal. There are several reasons why the Essar Steel case is important. First of all, it is among the biggest NPAs to have been settled in accordance with the IBC. Second, the case emphasises how crucial the IBC is to the timely resolution of bankruptcy proceedings. Third, the decision demonstrates that even if banks are not fully reimbursed for their loans, the Supreme Court is ready to accept the sale of insolvent businesses.

The following ramifications of the Essar Steel case pertain to NPAs:

- Large NPAs can be resolved with the help of the IBC. Even though banks might not always be able to recoup all of their debts, they have a better chance of doing so if the bankrupt firm is sold to a new buyer.
- The sale of bankrupt enterprises is encouraged by the Supreme Court, even if it means that banks won't get their whole loan back.
- Essar Steel case is an encouraging step for the Indian banking industry. It demonstrates that big NPAs may be resolved, even if it means banks must suffer a loss. Additionally, the case demonstrates the Supreme Court's support

ISSUES AND CHALLENGES

There are number of issues and challenges possessed by NPA Crisis in baking sector. However, to determine the issues and challenges, impact of NPA needs to be addressed.

Impact of NPA:

The below mentioned are few of the main issues banks are dealing with as a result of non-performing assets:

1. Impact of Bank Profitability: The banks' net interest income will decrease when non-performing assets (NPAs) cease to bring in income for banks. The banks' net income will decline as long as NPAs continue to rise.
2. Various bank's provision: To guarantee appropriate provisioning and transparency in the published accounts, the RBI has implemented prudential standards for income recognition and asset classification for Indian banks and financial institutions. Banks are required to make provisions for non-performing assets in accordance with the prudential standards set forth by the RBI. Banks make these reserves based on their designation of assets as non-performing assets.
3. Impact on liquidity: Non-performing assets (NPAs) have an impact on banks' liquidity positions, which leads to a disparity between assets and liquidity and forces the banks to raise capital at a premium. The rising NPAs could cause liquidity problems, which could result in a depositor run on the bank.
4. Impact on MSMEs: Because large companies received the majority of the loans, banks were hesitant to provide money to small businesses. Because of this, MSME's cost of capital rises when they have to borrow money from outside sources due to a lack of financing from the banks.
5. Confidence among shareholders: Typically, investors seek to increase the value of their holdings through larger market capitalization and dividends, which are only achievable when the bank reports big profits from improved operations. A bigger NPA level is probably going to negatively affect bank operations in addition to profitability, meaning that the capital

of the shareholders is not returned to market value. and occasionally it can reduce the value of their investments. Example: Punjab National Bank's share price.

6. Public confidence: Higher level non-performing assets (NPAs) have a significant negative impact on the financial system's credibility by undermining the public's belief in its stability.
7. Burden on society: The ultimate cost to society will be borne by the consumer, who will now need to spend more money in order to pay more interest. The increased cost of capital will result in slower growth and higher inflation.

Issues:

After analyzing the impacts, issues can be dealt more clearly. In the Indian banking industry, non-performing assets (NPAs) provide a number of issues. Among the main concerns are:

1. High NPA levels: In recent years, the Indian banking industry has struggled with a high NPA level. Numerous things have contributed to this, such as bad loan choices, a downturn in the economy, and fraud.
2. Capital erosion: Banks' capacity to lend may be limited and their capital base eroded by excessive non-performing assets (NPAs). The overall economy may suffer as a result of this.
3. The impact is greater on public sector banks (PSBs): For PSBs compared to commercial banks, the issue of excessive loan write-offs and NPAs is more serious. This can be partly attributed to PSBs' higher market share and hence higher risk exposure.
4. Delayed resolution: Under the Insolvency and Bankruptcy Code (IBC), matters involving insolvency can be resolved within a time-bound framework, with a maximum resolution term of 270 days. However, it has been taking significantly

longer than the allotted 270 days to resolve larger non-performing assets (NPAs) under the IBC.

5. Lack of bank-to-bank communication of credit information: This might make it challenging for banks to evaluate borrowers' creditworthiness and increase the risk of fraud.
6. Overvaluation of the collateral: For certain of their loans, a number of lenders were forced to accept excessively significant "haircuts." This results in inflated expectations about the amount that may be recovered in the case of default, partly because the value of the collateral has frequently been exaggerated.

Everything being considered, NPA-related problems in the Indian banking industry are complicated and call for a multifaceted solution.

Challenges:

Non-performing assets (NPAs) have been a significant problem for the banking industry in recent years, according to the Standing Committee Report on the Banking Sector in India. Loans that borrowers are not repaying because they are unwilling or unable to do so are referred to as non-performing assets (NPAs). High non-performing assets (NPAs) can weaken banks' capital bases and limit their capacity to lend, which can have detrimental effects on the economy as a whole. The Committee observed that compared to private banks, public sector banks (PSBs) have a more serious issue with large loan write-offs and non-performing assets (NPAs). This might be partly attributed to PSBs' higher market share and hence higher risk exposure. Furthermore, political meddling has traditionally affected PSBs, resulting in subpar lending decisions and a lack of accountability.

Banks' failure to provide credit information is another issue associated with non-performing assets (NPAs). This may impede banks' ability to evaluate borrowers' creditworthiness and

increase the risk of fraud. The Committee suggested that the government take action to enhance bank-to-bank credit information exchange in order to solve this problem. One possible solution to this would be to establish a central credit registry where banks could obtain data on the credit histories of individual borrowers.

The Committee also observed that a number of lenders had to accept excessively significant "haircuts" for a portion of their loans in addition to these difficulties. This results in inflated expectations about the amount that may be recovered in the case of default, partly because the value of the collateral has frequently been exaggerated. In order to solve this problem, the Committee suggested setting a fair base price for bidding in order to prevent creditors from taking significant "haircuts" throughout the NCLT IBC process.

The Committee also emphasised to the fact that NPAs are not just a concern in the banking industry. It's a bigger problem that has an impact on the whole economy. Debtor defaults can cause a slowdown in economic growth by causing ripple effects in other areas of the economy. As a result, it's critical to tackle the NPA issue holistically, with an emphasis on enhancing the state of the economy as a whole. It is well accepted that the major problem which the India's banking industry is facing is the NPA issue. It's a complicated problem that calls for a multifaceted solution. The Standing Committee Report on the Banking Sector in India gives suggestions for the future as well as insightful information about the difficulties the banking industry is facing, by putting these banking sector ideas into practise and making suggestions for the future.

Suggestions

In light of this research paper the following suggestions can be carved out:

1. Enhance the regulatory framework: In order to stop banks from providing dangerous loans, the government and

RBI should enhance the regulatory environment. This might entail taking steps like strengthening monitoring and tightening lending standards.

2. Improve credit information sharing: The government may take action to enhance this exchange. This would lower the risk of defaults and assist banks in evaluating borrowers' creditworthiness more accurately.
3. Enhance the legal foundation for NPA resolution: In order to speed up the process, the government should enhance the foundation for NPA resolution. This might entail taking steps like streamlining the bankruptcy procedure and creating courts just for NPA cases.
4. Encourage the use of alternative dispute resolution procedures: In order to settle NPAs more quickly, banks and other financial institutions should look into using alternative dispute resolution procedures including arbitration and mediation.

Conclusion

A robust banking industry is necessary for a thriving economy. There could be negative effects on other industries from the banking industry's collapse. One of the main issues facing Indian banks is non-performing assets. The performance of banks is reflected in NPAs. A high percentage of non-performing assets (NPAs) indicates a higher likelihood of numerous credit defaults, which have an adverse effect on banks' profitability and net worth in addition to devaluing the asset. Provisions become necessary as a result of the NPA rise, which lowers total earnings and shareholder value.

The topic of non-performing assets has been extensively explored in relation to the global financial system. The entire economy is impacted by the NPA issue in addition to the banks. Actually, the amount of non-performing assets in Indian banks simply serves as a window into the state of commerce and

industry. Credit granting for economic activity is the main obligation of banks. In addition to obtaining funds through new loans, deposits, and Recycling money that borrowers return to lenders makes up a sizable portion of credit finance dispensing operation. Since lending has the ability to provide funds, it is typically promoted. being moved out of the system and used for beneficial purposes, which produces economic expansion. However lending also entails a risk known as credit risk, which results from the borrower's failure. Unpaid debt combined with interest presents a significant barrier to the credit cycle process. The bank's profitability is significantly impacted by these loans. Although it is impossible to completely eliminate these losses, banks can always strive to limit the losses to a minimum.

As discussed in the paper about the recent actions taken by the RBI and Government of India is a welcome step in the right direction. Based on the discussion above, it can be concluded that the rising non-performing assets (NPA) have posed a significant challenge to the survival of the banking industry in India. With this industry so precariously positioned due to NPA, the goal of becoming an economic superpower would remain an unattainable goal.

It is pertinent to note here that in an effort to arm banks and creditors with all the information they need to safeguard themselves against the problem of bad loans, the Central Registry (as defined by the SARFAESI Act of 2002) and Information Utility (as defined by the IBC of 2016) have been introduced. Moreover if DRTs, who are essential to the resolution of non-performing assets (NPAs), are not given the authority and efficiency to handle cases that come before them, then all actions taken by the government and RBI would be rendered obsolete. In light of this, the Supreme Court's recent suggestion—that the structure of Debt Recovery Tribunals (DRTs) may need to be revisited—is highly pertinent. The suggestion includes a permanent cadre, an autonomous selection procedure, an autonomous

accountability and disciplinary mechanism, and finality that is only subject to the jurisdiction of constitutional courts in order to uphold the independence of the judiciary and the rule of law.¹⁵⁹

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