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RESEARCH PAPER

The Legal Framework for Non-Performing Asset Recovery in India: A Critical Analysis

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Abstract

Non-Performing Assets (NPAs) constitute a significant challenge to the stability and efficiency of the banking and financial system in India. The accumulation of bad loans affects the profitability of financial institutions, restricts their lending capacity and creates difficulties in maintaining financial discipline. The statutory framework for addressing this issue through the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act), the Recovery of Debts and Bankruptcy Act, 1993 (RDB Act) and the Insolvency and Bankruptcy Code, 2016 (IBC). It provides distinct mechanisms for enforcement of security interests, adjudication of debt recovery claims and resolution of corporate insolvency. This research examines the legal framework established under these three enactments, with particular reference to their statutory objectives, enforcement mechanisms, creditor rights, institutional structures and judicial decisions. It also analyses the interaction between recovery proceedings and the insolvency resolution process, including the operation of the moratorium under section 14 and the overriding effect of section 238 of the IBC. The study adopts a doctrinal methodology. It identifies procedural delays, institutional limitations, valuation difficulties and inadequate coordination as important obstacles to effective recovery. The paper argues that effective NPA recovery requires stringent laws, efficient institutions, transparent enforcement and coordination. Effective coordination is significant to protect creditors, preserve assets and strengthen the banking system in India.

1. Introduction

The banking sector plays a significant role in economic development by mobilising savings, providing credit and supporting commercial and industrial activities. The effective functioning of this sector depends upon the timely repayment of loans and the ability of financial institutions to recover outstanding amounts. However, the increasing accumulation of Non-Performing Assets (NPAs) has remained a major concern for the banking system in India. NPAs affect the financial health of banks, reduce profitability, increase provisioning requirements and restrict the availability of funds for fresh lending[1].

[1] 'Implications of Banking Sector on Economic Development in India' (ResearchGate) <https://www.researchgate.net/publication/352982742_IMPLICATIONS_OF_BANKING_SECTOR_ON_ECONOMIC_DEVELOPMENT_IN_INDIA> accessed 4 November 2026.

The traditional process of recovering outstanding loans through ordinary civil courts was often criticised for procedural complexity and delay. Recognising the need for specialised recovery mechanisms, Parliament enacted the Recovery of Debts Due to Banks and Financial Institutions Act, 1993, subsequently renamed the Recovery of Debts and Bankruptcy Act, 1993. The SARFAESI Act, 2002 further strengthened the position of secured creditors by permitting enforcement of security interests through statutory procedures without initially requiring intervention by a civil court or tribunal. The IBC, 2016 introduced a comprehensive insolvency resolution and liquidation framework for corporate persons[2]. The RDB Act primarily deals with adjudication and recovery mechanisms through Debt Recovery Tribunals (DRTs). The SARFAESI Act facilitates enforcement of security interests by eligible secured creditors. The IBC seeks to resolve corporate insolvency through a collective process that aims to preserve enterprise value and balance stakeholder interests[3]. The coexistence of these enactments raises significant questions concerning concurrent remedies, creditor priority, the effect of insolvency proceedings on pending recovery actions and the protection of borrowers[4].

This research analyses the legal framework governing NPA recovery under the three enactments and evaluates the practical difficulties affecting their implementation. It asserts that effective recovery requires a coordinated approach that combines statutory enforcement, specialised adjudication, insolvency resolution and preventive financial governance.

2. Concept and Classification of Non-Performing Assets

A Non-Performing Asset is an advance or loan that ceases to generate income for the lending institution in accordance with applicable regulatory norms. The Reserve Bank of India (RBI) prescribes prudential standards for income recognition, asset classification and provisioning, in order to ensure that banks recognise financial stress objectively and maintain adequate provisions against expected losses[5].

For term loans of commercial banks, an account generally becomes an NPA when interest or instalments of principal remain overdue for more than 90 days, subject to the applicable RBI directions. Separate criteria apply to cash credit and overdraft accounts, bills purchased or discounted and agricultural advances. The precise classification must therefore be determined by reference to the regulatory directions applicable to the relevant category of lender and advance[6].

NPAs are generally classified into three categories: substandard assets, doubtful assets and loss assets. A substandard asset is one that has remained an NPA for a period not exceeding twelve months. A doubtful asset is one that has remained in the substandard category for twelve

[2] 'Why Should You Know Debt Recovery Laws in India? | Credgenics Blog' <https://blog.credgenics.com/understanding-debt-recovery-laws/> accessed 4 November 2026.
[3] Legistify, 'Debt Recovery in India: DRT, SARFAESI, IBC Routes (2026)' (Legistify, 19 August 2025) <https://legistify.com/blogs/debt-recovery-in-india/> accessed 4 November 2026.
[4] Dhir, Dhir Associates-Varsha Banerjee and Diva Sarvagyaa, 'Insolvency Meets Arbitration: Convergence, Conflict, and Co-Existence in Asia' (Lexology, 11 September 2026) <https://www.lexology.com/library/detail.aspx?g=d7175d48-854d-4f28-95fa-5321c5953421> accessed 4 November 2026.
[5] 'Notifications | Official Website of Reserve Bank of India' <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=13146> accessed 4 November 2026.
[6] RK Uppal and Parul Khanna, 'Factors Affecting NPAs of Scheduled Commercial Banks : An Empirical Study Based in Punjab' (2015) 9 Indian Journal of Finance 7 <https://doi.org/10.17010/ijf/2015/v9i2/71517>.

months. A loss asset is identified as uncollectible by the bank, its auditors or the RBI, although it may not have been completely written off[7].

An important legal distinction exists between NPA classification and default under the IBC. Section 3(12) of the IBC defines default as non-payment of a debt when the whole or any part of the debt has become due and payable and remains unpaid. Consequently, NPA classification under RBI prudential norms is not a prerequisite for initiating insolvency proceedings under section 7, provided the statutory requirements, including the applicable minimum default threshold, are satisfied. NPA classification is principally a regulatory and accounting determination, whereas default under the IBC is a statutory concept governing the commencement of insolvency proceedings[8].

3. Development of the Legal Framework for NPA Recovery

The growth of NPA recovery frameworks in India reflects the transition from ordinary civil litigation towards specialised statutory enforcement and insolvency mechanisms. Earlier, banks and financial institutions depended substantially on civil court proceedings to recover outstanding loans. Prolonged litigation and difficulties in executing decrees highlighted the need for a more effective institutional mechanism[9].

The recommendations of the Narasimham Committee on Financial System in 1991 contributed to banking sector reforms and the establishment of specialised debt recovery institutions. Parliament subsequently enacted the Recovery of Debts Due to Banks and Financial Institutions Act, 1993. The Act established DRTs and DRATs to adjudicate recovery claims and provide an institutional mechanism for enforcing recovery certificates[10].

The enactment of the SARFAESI Act, 2002 represented a further development. It enabled eligible secured creditors to enforce security interests through statutory measures, including taking possession of secured assets and selling them in accordance with the Act and the Security Interest (Enforcement) Rules, 2002. The Act also established a mechanism for securitisation and reconstruction of financial assets[11]. The IBC, 2016 introduced a broader approach by consolidating the law relating to corporate insolvency resolution and liquidation. Unlike the earlier recovery enactments, the IBC does not merely provide an individual creditor with a mechanism to recover its debt. It establishes a collective process in which creditors participate in determining the future of an insolvent corporate debtor[12].

[7] 'NPA Classification and Provisioning Norms for Banks in India' <https://enterslice.com/learning/npa-provisions-for-banks/> accessed 5 November 2026.

[8] Omesh Corporate Law Articles Share, 'Date of Declaration of NPA Is Not Identical to Date of Default under IBC, 2016' (TaxGuru, 26 August 2024) <https://taxguru.in/corporate-law/date-declaration-npa-identical-date-default-ibc-2016.html> accessed 5 November 2026.

[9] 'Resolving Non-Performing Assets in India: A Critical Analysis of the Legal and Policy Framework Under Sarfaesi and the Insolvency and Bankruptcy Code by Zeba Ahmed :: SSRN' <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=6888739> accessed 5 November 2026.

[10] 'Narasimham Committee, History, Recommendations, Importance' <https://vajiramandravi.com/current-affairs/narasimham-committee/> accessed 5 November 2026.

[11] Taxmann, 'Overview of the SARFAESI Act – Background | Provisions' (Taxmann Blog, 16 February 2023) <https://www.taxmann.com/post/blog/overview-of-the-sarfaesi-act> accessed 5 November 2026.

[12] 'All About Liquidation under the Insolvency and Bankruptcy Code 2016' <https://www.researchgate.net/publication/400797740_All_About_Liquidation_under_the_Insolvency_and_Bankruptcy_Code_2016> accessed 5 November 2026.

The development of these enactments demonstrates the legislative aim of improving recovery efficiency while providing a framework for resolving financial distress. However, the coexistence of the statutes requires careful interpretation to prevent conflicting proceedings and protect the collective insolvency process[13].

4. Legal Framework Under the SARFAESI Act, 2002

The SARFAESI Act was enacted to enable eligible secured creditors to enforce security interests and reduce their dependence on lengthy judicial recovery proceedings. It provides a statutory mechanism for taking possession of secured assets and realising the outstanding debt through sale or other permitted measures. Under section 13(2), a secured creditor may issue a demand notice requiring the borrower to discharge the outstanding liability within sixty days, where the statutory conditions are satisfied. Section 13(3A) requires the secured creditor to consider any representation or objection submitted by the borrower and communicate reasons where the objection is not accepted. Following non-compliance with the demand notice, the creditor may take one or more measures under section 13(4), including taking possession of secured assets, taking over management in specified circumstances and appointing a manager[14]. The Security Interest (Enforcement) Rules, 2002 prescribe procedures relating to possession and sale of secured assets. In the case of immovable property, the rules regulate valuation, reserve price, publication of sale notices and the conduct of auctions. These requirements are intended to ensure transparency and protect the interests of borrowers and creditors[15].

Section 14 enables the secured creditor to seek assistance from the Chief Metropolitan Magistrate or District Magistrate for taking possession of secured assets. The provision is particularly relevant where physical possession cannot be obtained without administrative assistance[16]. The Act also provides statutory remedies against improper enforcement. Under section 17, a borrower or other aggrieved person may approach the DRT against measures taken under section 13(4), generally within forty-five days. Section 18 provides for an appeal to the DRAT, subject to the applicable statutory pre-deposit requirement[17]. Section 26D makes registration of the security interest with the Central Registry a condition for enforcement under Chapter III. Section 26E grants priority to secured creditors after registration of the security interest, subject to the provisions of the IBC[18]. The judiciary has played an important role in balancing creditor enforcement powers with procedural safeguards. In *Mardia Chemicals Ltd v Union of India*[19], the Supreme Court examined the constitutional validity of the SARFAESI framework and recognised

[13] 'Complexities of Group Cross-Border Insolvency and Arbitration in India', ResearchGate (2026) <https://doi.org/10.63108/VAB.IBL.1.10> accessed 5 November 2026.

[14] 'Sarfaesi Act and Borrower Rights in India: Section 13(2) to 17 Explained' (9 October 2026) <https://www.juristandjurist.com/sarfaesi-act-borrower-rights-challenging-recovery/> accessed 5 November 2026.

[15] Bhumika Indulia, 'Secure or Not: Sale by Way of Private Treaty under SARFAESI' (SCC Times, 24 February 2023) <https://www.scconline.com/blog/post/2023/02/24/secure-or-not-sale-by-way-of-private-treaty-under-sarfaesi/> accessed 5 November 2026.

[16] 'Section 14 SARFAESI Act: Meaning, Process, Your Rights' <https://freed.care/blog/sarfaesi-section-14-guide> accessed 5 November 2026.

[17] 'Section 17 SARFAESI Act: DRT Powers, Limits, Limitation & Remedies' <https://taxguru.in/corporate-law/section-17-sarfaesi-act-drt-powers-limits-limitation-remedies.html> accessed 5 November 2026.

[18] Cyril Amarchand Mangaldas-Indranil D Deshmukh and Saloni Kapadia, 'Priority Of Dues Under SARFAESI: Bombay High Court Reiterates' (Lexology, 24 July 2023) <https://www.lexology.com/library/detail.aspx?g=3fe0af3f-4cdd-4ad3-9309-755219aa8939> accessed 5 November 2026.

[19] *Mardia Chemicals Ltd v Union of India* (2004) 4 SCC 311.

the importance of safeguards against arbitrary enforcement. In *Transcore v Union of India*[20], the Court clarified the relationship between the SARFAESI Act and the RDB Act and recognised that the remedies under the two enactments are complementary[21]. Although the SARFAESI Act has strengthened secured creditor rights, its practical effectiveness is affected by delays in obtaining possession, disputes concerning valuation, challenges before DRTs and difficulties in finding purchasers for secured assets. Its success therefore depends upon procedural compliance and efficient institutional support.

5. Legal Framework under the Recovery of Debts and Bankruptcy Act, 1993

The RDB Act provides a specialised adjudicatory mechanism for recovery of debts due to banks and financial institutions. Its primary objective is to facilitate speedy adjudication and execution of recovery claims through DRTs and DRATs[22]. Section 17 confers jurisdiction upon DRTs to entertain and decide applications from banks and financial institutions for recovery of debts due to them. Section 18 excludes the jurisdiction of civil courts in matters falling within the jurisdiction of the DRT, subject to the statutory exceptions. Section 19 prescribes the procedure for filing recovery applications and dealing with claims made by financial institutions[23]. The DRT may also issue a recovery certificate. Sections 25 and 29 provide mechanisms for recovery and execution, including the application of specified provisions of the Income-tax Act framework to recovery proceedings. These provisions seek to ensure that an adjudicated debt can be enforced effectively[24].

Section 20 provides for appeals to the DRAT, subject to the statutory requirements, including the prescribed pre-deposit. Section 31B recognises the priority of secured creditors in the realisation of secured debts over other debts and specified government dues. This priority must, however, be read subject to the applicable insolvency framework[25]. In *Allahabad Bank v Canara Bank*[26], the Supreme Court considered the jurisdiction of the DRT and the relationship between debt recovery proceedings and other statutory mechanisms. In *Punjab National Bank v OC Krishnan*[27], the Court emphasised the importance of following the specialised statutory remedy provided under the RDB Act rather than permitting ordinary civil proceedings to undermine the legislative scheme[28]. Despite its importance, the effectiveness of the RDB Act is affected by delays in

[20] *Transcore v Union of India* (2008) 1 SCC 125.

[21] Anas Ali and Legal Service India, 'Constitutionality of Section 13 of the SARFAESI Act: Supreme Court on Borrowers' Rights, DRT Remedies & Mardia Chemicals Explained' (Legal Service India - Articles, 14 July 2026) <https://www.legalserviceindia.com/Legal-Articles/constitutionality-section-13-sarfaesi-act-borrowers-rights-mardia-chemicals/> accessed 5 November 2026.

[22] Archana M and Thenmozhi S, 'Judicial and Statutory Remedies in Debt Recovery an Analysis of the DRT and SARFAESI Framework' [2026] Journal of Law and Legal Research Development 25 <https://doi.org/10.69662/jllrd.v3i4.83>.

[23] Vikas Puri, 'How Does Debt Recovery Tribunals Work?' (Lead India, 5 April 2023) <https://www.leadindia.law/blog/en/how-does-debt-recovery-tribunal-work/> accessed 5 November 2026.

[24] GS Dubey, 'Debts Recovery Tribunal – A Detailed Study'.

[25] 'Section 31B of Recovery of Debts and Bankruptcy Act, 1993: Priority to Secured Creditors' (IBC Laws) <https://ibclaw.in/section-31b-priority-to-secured-creditors/> accessed 5 November 2026.

[26] *Allahabad Bank v Canara Bank* (2000) 4 SCC 406.

[27] *Punjab National Bank v OC Krishnan* (2001) 6 SCC 569.

[28] Casemine Editor's Desk, 'Reaffirming the Primacy of Statutory Remedies over Writ Jurisdiction in Debt Recovery Matters' (https://www.casemine.com, 12 December 2024) <https://www.casemine.com/commentary/

adjudication, vacancies, excessive caseloads and difficulties in executing recovery certificates. Strengthening the institutional capacity of DRTs and DRATs is therefore essential to achieving the statutory objective of speedy recovery.

6. Legal Framework under the Insolvency and Bankruptcy Code, 2016

The IBC introduced a comprehensive framework for resolving corporate insolvency and liquidating corporate debtors where resolution is not possible. Its central objective is to maximise the value of assets, promote entrepreneurship, improve the availability of credit and balance the interests of stakeholders[29]. It includes the National Company Law Tribunal (NCLT) as the Adjudicating Authority, the National Company Law Appellate Tribunal (NCLAT), the Insolvency and Bankruptcy Board of India (IBBI), insolvency professionals and information utilities[30].

Section 4 sets the minimum amount of default for the application of the corporate insolvency provisions. The applicable threshold is presently one crore rupees. Section 7 enables a financial creditor to initiate CIRP, section 9 provides the mechanism for operational creditors and section 10 permits a corporate applicant to initiate proceedings[31]. Upon admission of a CIRP application, section 14 provides for a moratorium. It prohibits, among other matters, the institution or continuation of proceedings against the corporate debtor and actions to foreclose, recover or enforce security interests created by the corporate debtor in respect of its property. The moratorium protects the corporate debtor's assets and prevents individual creditors from disrupting the collective insolvency process[32]. The interim resolution professional and resolution professional administer the process in accordance with the Code. The Committee of Creditors (CoC), consisting principally of financial creditors, considers the resolution plan and exercises its commercial judgment within the statutory framework. Sections 30 and 31 regulate the submission, approval and binding effect of resolution plans[33].

Where resolution fails or the statutory conditions for liquidation are met, the Adjudicating Authority may order liquidation under section 33. Section 52 provides secured creditors with the option either to relinquish their security interest to the liquidation estate or to realise their security interest in accordance with the Code. Section 53 prescribes the order of distribution of liquidation proceeds[34]. Section 238 gives the IBC overriding effect where its provisions are inconsistent with another law. It does not repeal the SARFAESI Act or the RDB Act; rather, it

in/reaffirming-the-primacy-of-statutory-remedies-over-writ-jurisdiction-in-debt-recovery-matters/view> accessed 5 November 2026.

[29] Taxmann, 'Comprehensive Guide to Insolvency and Bankruptcy Code' (Taxmann Blog, 27 March 2021) <https://www.taxmann.com/post/blog/insolvency-and-bankruptcy-code> accessed 5 November 2026.

[30] The Legal Bridge, 'Institutional Framework IBBI NCLT NCLAT IPs: Insolvency and Bankruptcy Code, 2016 Notes' (The Legal Bridge) <https://thelegalbridge.in/notes/institutional-framework-ibbi-nclt-nclat-ips/> accessed 5 November 2026.

[31] Taxmann, 'Process of Insolvency Resolution for Corporate Persons' (Taxmann Blog, 1 July 2021) <https://www.taxmann.com/post/blog/process-of-insolvency-resolution-for-corporate-persons> accessed 5 November 2026.

[32] Arushi Gupta, 'Moratorium under the Insolvency and Bankruptcy Code, 2016 – Scope and Recent Developments' (2020) 2 International Journal of Legal Science and Innovation 301.

[33] Gouri C V, 'Corporate Insolvency Resolution Process: An Overview of the Procedural Regime and Its Economic Relevance' (2025) 7 International Journal of Legal Science and Innovation 734.

[34] 'Liquidation Process Under The Insolvency And Bankruptcy Code, 2016 - An Overview' (Legal 500, 29 September 2020) <https://www.legal500.com/intelligence/india/insolvency-bankruptcy-re-structuring/liquidation-process-under-the-insolvency-and-bankruptcy-code-2016-an-overview> accessed 5 November 2026.

ensures that the insolvency framework prevails to the extent of a genuine inconsistency[35].

In *Innoventive Industries Ltd v ICICI Bank*[36], the Supreme Court explained the operation of the IBC and its overriding effect[37]. In *Swiss Ribbons Pvt Ltd v Union of India*[38], the Court recognised the distinct objectives of the Code and upheld important aspects of its constitutional framework[39]. In *Committee of Creditors of Essar Steel India Ltd v Satish Kumar Gupta*[40], the Court stressed the significance of the commercial wisdom of the CoC, subject to the statutory limits governing approval of resolution plans[41]. The IBC has therefore introduced a significant change in the treatment of corporate financial distress. Nevertheless, delays in insolvency proceedings, litigation and unsuccessful resolution attempts may affect the value available to creditors.

7. Coordination among the Three Enactments

The interaction between the SARFAESI Act, the RDB Act and the IBC is one of the most significant aspects of the NPA recovery framework. The first two enactments provide enforcement and recovery mechanisms, whereas the IBC establishes a collective insolvency process. The Supreme Court in *Transcore v Union of India* held that remedies under the SARFAESI Act and the RDB Act are complementary and that a creditor is not necessarily required to elect only one remedy. Accordingly, a creditor may pursue appropriate remedies under both enactments, subject to statutory requirements and the prohibition against recovering the same debt more than once[42].

The legal position changes when CIRP is admitted. Section 14 of the IBC restricts individual enforcement actions against the corporate debtor and its property during the moratorium. In *Indian Overseas Bank v RCM Infrastructure Ltd*[43], the Supreme Court considered the effect of the moratorium on enforcement and sale proceedings under the SARFAESI Act. The decision confirms the importance of complying with the moratorium once CIRP has commenced[44]. The overriding effect under section 238 must be understood in this context. The SARFAESI Act and the RDB Act continue to operate within their respective fields, but their provisions cannot be applied in a manner that defeats an inconsistent requirement of the IBC[45].

[35] Manupatra, 'Overlap Between IBC and SARFAESI' <https://articles.manupatra.com/article-details?id=undefined&ifile=undefined> accessed 5 November 2026.
[36] *Innoventive Industries Ltd v ICICI Bank* (2018) 1 SCC 407.
[37] 'M/S. Innoventive Industries Ltd vs Icici Bank on 31 August, 2017' <https://indiankanoon.org/doc/181931435/> accessed 5 November 2026.
[38] *Swiss Ribbons Pvt Ltd v Union of India* (2019) 4 SCC 17.
[39] 'Swiss Ribbons Pvt. Ltd. and Anr. Vs. Union of India and Ors : Comprehending the Underpinnings of the Insolvency and Bankruptcy Code, 2016 - iPleaders' <https://blog.ipleaders.in/swiss-ribbons-pvt-ltd-and-anr-v-union-of-india-and-ors-comprehending-the-underpinnings-of-the-insolvency-and-bankruptcy-code-2016/> accessed 5 November 2026.
[40] *Committee of Creditors of Essar Steel India Ltd v Satish Kumar Gupta* (2020) 8 SCC 531.
[41] 'Supreme Court's Landmark Decision in Essar Steel Case' (BCAJ) <https://bcajonline.org/journal/supreme-courts-landmark-decision-in-essar-steel-case/> accessed 5 November 2026.
[42] The Legal Bridge, 'Transcore v Union of India: SARFAESI Act, 2002 Notes' (The Legal Bridge) <https://thelegalbridge.in/notes/transcore-v-union-of-india/> accessed 5 November 2026.
[43] *Indian Overseas Bank v RCM Infrastructure Ltd* (2022) 8 SCC 516.
[44] 'Analysis of Moratorium under Corporate Insolvency Resolution Process: A Comparative Study of India and United Kingdom' [2026] ResearchGate <https://doi.org/10.60143/ijls.v11.i1.2025.180> accessed 5 November 2026.
[45] Manupatra (n 35).

The priority of secured creditors also requires careful interpretation. Sections 26E of the SARFAESI Act and 31B of the RDB Act recognise secured creditor priority. However, during liquidation, sections 52 and 53 of the IBC regulate the exercise of security rights and distribution of proceeds. Thus, secured creditor priority must be determined in accordance with the applicable insolvency provisions[46]. The moratorium does not automatically extend to personal guarantors. Section 14(3)(b) excludes a surety in a contract of guarantee to a corporate debtor from the operation of the moratorium. In *State Bank of India v V Ramakrishnan*[47], the Supreme Court clarified that the moratorium under section 14 does not automatically protect personal guarantors[48]. The interaction of these statutes demonstrates the need for coordination among banks, DRTs, NCLTs and insolvency professionals. Amounts recovered through one proceeding must be properly accounted for in other proceedings to prevent double recovery and protect the rights of stakeholders.

8. Challenges in NPA Recovery

Despite the development of a comprehensive statutory framework, several practical difficulties continue to affect NPA recovery in India. One of the major concerns is delay in proceedings before DRTs and DRATs. Excessive pendency of cases, vacancies, procedural disputes and difficulties in executing recovery certificates may extend the time required to recover outstanding debts[49].

The enforcement process under the SARFAESI Act also faces difficulties. Physical possession of secured assets may be delayed by resistance from occupants, administrative constraints and disputes concerning ownership or valuation. Such delays can reduce the market value of assets and increase the cost of recovery[50]. Asset valuation is another important challenge. An unrealistic reserve price may discourage prospective purchasers, while an undervalued sale may adversely affect the interests of borrowers and creditors. Professional valuation, accurate disclosure and transparent auction procedures are therefore necessary[51].

Litigation before NCLTs and NCLATs, disputes over claims, difficulties in obtaining approvals and delays in resolution plan implementation may affect the objective of timely insolvency resolution. Where a viable resolution cannot be achieved, liquidation may result in lower realisation than anticipated[52]. Fraudulent transactions and diversion of funds further complicate recovery. Sections 43 to 51 and section 66 of the IBC provide mechanisms for examining specified

[46] M Karuthaiah Thalaivar and Hon Dr Santosh Kumar, 'Priority to Secured Creditors in the Regime of SARFAESI Act, RDB Act and IBC' (2022) 11 International Journal of Food and Nutritional Sciences 3759.
[47] *State Bank of India v V Ramakrishnan* (2018) 17 SCC 394.
[48] 'Moratorium Proceedings' <http://student.manupatra.com/Academic/ReadyReckoner/Insolvency-&-Bankruptcy/Moratorium-Proceedings.htm> accessed 5 November 2026.
[49] Bhaskar Marg and Bani Park, 'Regulatory Impact Assessment in Indian Financial Sector: Improving Debt Recovery'.
[50] 'Enforcement of Security Interest by Banks under SARFAESI Act' <https://www.taxmann.com/post/blog/enforcement-of-security-interest-by-banks-under-sarfaesi-act> accessed 5 November 2026.
[51] 'Can Asset Reconstruction Companies (ARCs) Be Part Solution to the Indian Debt Problem?' <https://www.researchgate.net/publication/316081923_Can_Asset_Reconstruction_Companies_ARCs_be_Part_Solution_to_the_Indian_Debt_Problem> accessed 5 November 2026.
[52] 'Unveiling Key Challenges In The IBC: A Critical Study Of Loopholes And Structural Issues In India's Insolvency Framework' <https://www.researchgate.net/publication/393414946_Unveiling_Key_Challenges_In_The_IBC_A_Critical_Study_Of_Loopholes_And_Structural_Issues_In_India's_Insolvency_Framework> accessed 5 November 2026.

avoidance transactions and fraudulent or wrongful trading. However, their effective use requires access to reliable financial records, professional investigation and timely adjudication[53].

Asset Reconstruction Companies (ARCs) also play an important role in managing stressed financial assets. Their effectiveness depends on accurate asset valuation, due diligence, restructuring expertise and the commercial viability of the acquired assets[54]. These issues establish that statutory enforcement alone cannot solve the problem of NPAs. Effective credit appraisal, continuous monitoring of loan utilisation, early identification of financial stress and sound corporate governance are equally important.

9. Critical Analysis and Findings

The analysis shows that India has developed a multi-layered statutory framework for NPA recovery. The SARFAESI Act strengthens secured creditor enforcement, the RDB Act provides specialised debt adjudication and recovery, and the IBC creates a collective mechanism for insolvency resolution and liquidation.

A significant finding is that these statutes are complementary but not interchangeable. Their respective objectives must be preserved while ensuring that conflicts are resolved in accordance with the statutory hierarchy. The IBC does not completely displace the earlier recovery enactments, but its provisions prevail where a genuine inconsistency arises.

A further finding concerns the distinction between NPA classification and default under the IBC. The two concepts operate under different legal and regulatory frameworks. This distinction is important because insolvency proceedings may be initiated upon satisfaction of the IBC's requirements without waiting for the completion of the regulatory NPA classification period.

This study also finds that statutory priority for secured creditors must be reconciled with the collective distribution framework under the IBC. Sections 52 and 53 are particularly significant during liquidation. Creditor rights must therefore be considered in the context of the stage and nature of the proceedings.

Institutional efficiency remains a major weakness. Delays before DRTs, DRATs and NCLTs, difficulties in obtaining possession and disputes concerning asset valuation affect the amount and timing of recovery. The effectiveness of the legal framework consequently depends upon the capacity of adjudicatory institutions and the quality of administrative implementation.

Finally, the study finds that prevention is as important as recovery. Weak credit appraisal, poor monitoring and diversion of loan funds may contribute to the accumulation of NPAs. A sustainable framework must therefore combine preventive financial governance with effective enforcement and insolvency resolution.

10. Conclusion and Recommendations

Non-Performing Assets remain a significant challenge to the stability and efficiency of the banking and financial system in India. The SARFAESI Act, the RDB Act and the IBC have

[53] 'Avoidance Transactions Under IBC – Tranzission' <https://tranzission.in/avoidance-transactions-under-ibc/> accessed 5 November 2026.
[54] 'Can Asset Reconstruction Companies (ARCs) Be Part Solution to the Indian Debt Problem?' (n 51).

collectively strengthened the legal framework for enforcement of security interests, recovery of debts and resolution of corporate insolvency. Each enactment performs a distinct function and contributes to the broader objective of maintaining financial discipline.

The analysis indicates that the SARFAESI Act and the RDB Act provide important remedies to secured creditors, while the IBC introduces a collective insolvency framework that seeks to preserve asset value and balance stakeholder interests. The operation of the IBC moratorium and its overriding effect must be respected where insolvency proceedings are admitted. At the same time, the earlier recovery enactments continue to operate within their respective statutory fields, subject to the requirements of the Code.

Despite these developments, delays in adjudication, difficulties in asset valuation, procedural obstacles and inadequate institutional coordination continue to affect recovery outcomes. The effectiveness of the legal framework therefore requires more than statutory enforcement powers. It requires stronger institutions, transparent procedures, effective financial investigation and preventive credit monitoring.

Ultimately, the success of NPA recovery should be measured not merely by the initiation of proceedings but by timely recovery, preservation of asset value, viable resolution of distressed businesses and fair treatment of stakeholders. A coordinated implementation of the SARFAESI Act, the RDB Act and the IBC, supported by appropriate institutional and regulatory reforms, is significant for strengthening creditor confidence and maintaining the stability of the banking system in India.

First, the institutional capacity of DRTs and DRATs should be strengthened through timely appointments, adequate infrastructure and improved case-management systems. Digital filing, electronic tracking and appropriate use of virtual hearings may reduce procedural delays.

Secondly, enforcement under the SARFAESI Act should be made more efficient through proper documentation, timely assistance under section 14 and transparent compliance with valuation and sale procedures. At the same time, borrowers must retain effective access to statutory remedies against unlawful enforcement.

Thirdly, insolvency adjudication should be strengthened through adequate NCLT and NCLAT capacity and improved professional expertise. Timely resolution of disputes concerning claims, resolution plans and avoidance transactions is necessary to preserve enterprise value.

Fourthly, transparent valuation procedures should be ensured. Qualified valuers should use appropriate methodologies, and sale notices should disclose material information concerning secured assets. Wider participation in electronic auctions may improve the prospects of realising reasonable market value.

Fifthly, coordination among banks, DRTs, NCLTs, insolvency professionals and regulatory authorities should be improved. Information concerning security interests, pending proceedings, creditor claims and amounts already recovered should be accurately maintained and exchanged through appropriate systems.

Sixthly, banks should strengthen credit appraisal, borrower due diligence and continuous monitoring of loan utilisation. Early identification of financial stress may permit timely restructuring or other corrective measures where commercially viable.

Seventhly, investigation of fraudulent and avoidance transactions should be strengthened through effective financial analysis and access to reliable records. The relevant provisions of the IBC should be used where their statutory conditions are satisfied.

Finally, recovery practices should maintain a balance between creditor interests and borrower safeguards. Proper statutory notices, transparent calculation of dues and meaningful consideration of borrower representations can reduce unnecessary disputes and strengthen public confidence in the banking system.

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