



Rising NPAS in India: Case Study on ABG Shipyard

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ABSTRACT:

By evaluating the existence of terrible loans, such as if an asset is unable to generate returns for a specific period of time, it is possible to quickly analyse the banking vertical (NPA). The majority of banks nowadays are dealing with problems like terrible loans and escalating, widespread frauds, which seriously humiliate public sector banks. Following the second Covid-19 wave across all sectors, the pandemic had an impact on borrowers' ability to repay loans. The purpose of this study is to identify the causes of non-performing assets in Indian public sector banks, as well as the monitoring procedures and credit evaluations in place to prevent their development. It also looks at the extent to which Covid-19 has an impact on NPA.

Keywords: Banking, Public Sector Banks, Non-Performing Asset

1. INTRODUCTION:

The banking industry is regarded as a notable pillar in the financial system, and its robust state will boost the economy of the country (Varuna & Nidhi 2019). By placing a high premium on routine monitoring and analysing bank performance because this might affect their effectiveness and revenue, the frequency of financial crises in the banking sector can be reduced to a certain degree (Hafsai et al. 2020). Since all financial institutions heavily rely on interest payments for income and financial instability in the nation can cause a sharp increase in non-performing loans and ultimately result in significant write-downs, an increase in NPAs will have a negative impact on bank profits and force drastic changes in monetary policy (Preeti & Bansal 2019).

A non-performing asset (NPA) refers to a classification for loans or advances that are in default. A loan is in arrears when principal or interest payments are late or missed. A loan is in default when the lender considers the loan agreement to be broken and the debtor is unable to meet his obligations.

Some key takeaways of NPAs in general:

- Assets become Non-performing assets (NPAs) and are recorded on a bank's balance sheet only after a prolonged period of non-payment by the borrowers
- A significant number of NPAs over a period of time

points to the poor financial fitness of a bank; hence placing a financial burden on the lenders.

- Depending upon the time overdue and the probability of repayment NPAs can be classified as substandard assets, doubtful debt or loss assets.
- Lenders can take possession of any collateral or sell off the loan at a significant discount to a collection agency in order to recover their losses from NPAs

2. OBJECTIVES OF THE STUDY :

- To identify the causes of NPAs in public sector banks.
- To analyse the fundamental analysis of ABG Shipyard
- To analyse the financial analysis of ABG Shipyard

3. RESEARCH METHODOLOGY:

In order to determine financial health of banks there are some ratios used such as Current Ratio, Acid Test Ratio, Asset to Debt Ratio. This research covers the period of 2010 to 2020 & from Jan 2022 to Feb 2022 for case study purpose by collecting data and information from various secondary sources such as journals, articles, newspapers and available index.

4. ANALYSIS OF OBJECTIVE 1:

4.1 WORKING OF NON-PERFORMING ASSETS (NPAS) AND CAUSES :

- After a prolonged period of non-payment the NPAs are listed on the balance sheet of a bank or other financial institution and the lender will force the borrower to liquidate any assets that were pledged as part of the debt agreement. The lender might write off the asset as a bad debt and then sell it at a discount to a collection agency if no assets were pledged. When loan payments have not been made for 90 days, debt is typically labelled as nonperforming. While 90 days is typical, the actual amount of time may vary depending on the terms and circumstances of each loan, either being shorter or longer. At any time before or after the loan's maturity, it may be designated as a nonperforming asset.
- For example, assume a borrower with a ₹1cr loan with interest-only payments of ₹50,000 per month. In

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case he fails to make a payment for three consecutive months, the lender may be required to categorize the loan as nonperforming to meet regulatory requirements. Alternatively, a loan can also be categorized as nonperforming if a company makes all interest payments but cannot repay the principal at maturity.

- The lender is significantly burdened by carrying non-performing assets, commonly known as nonperforming loans, on the balance sheet. The lender's cash flow is reduced when interest or principle are not paid, which can cause budgetary problems and lower revenues. Loan loss provisions restrict the capital available to make further loans to other borrowers since they are set aside to cover prospective losses. Once the real losses from failed loans have been calculated, they are deducted from profits. For regulators, having a sizable quantity of NPAs on the balance sheet over an extended period of time is a warning that the bank's financial stability is in jeopardy.
- Banks are further required to classify NPAs into Substandard, Doubtful, and Loss assets.
 1. *Substandard assets*: Assets that have remained NPA for a period less than or equal to twelve months.
 2. *Doubtful assets*: An asset would be classified as doubtful if it has remained in the substandard category for twelve months.
 3. *Loss assets*: As per RBI, "Loss asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted, although there may be some salvage or recovery value."

4.2 RISING NPAS IN INDIA

- The economic survey noted that banks have fared the pandemic better than anticipated, with nonperforming assets (NPAs) lower than before Covid and the lockdowns that followed. However, restructured loans have increased as a result of the various concessions offered to businesses, and as a result, there may still be a lagged impact of distress on their assets as the economic impact develops.
- Since 2018–19, banks' gross NPA ratio and net NPA ratio have both decreased, with the GNPA ratio falling from 7.5% in September of last year to 6.9% in September of this year. However, throughout the same time period, the banks' restructured advances ratio rose from 0.4% to 1.5%. As a result, from 7.9% in September 2020 to 8.5% in September 2021, the overall stressed advances ratio has increased.

According to the economic survey, different COVID-19-related exemptions/moratoria granted regarding asset quality contributed to an increase in restructured assets, which led to an increase in the banking system's stressed advances ratio at the end of September 2021. Even while some delayed effects are still in the works, the banking

sector overall seems to have handled the pandemic shock adequately. Public sector banks (PSBs) had the lowest GNPA ratio among banks, falling from 9.4% in September 2020 to 8.6% in September 2021, however stressed advances increased slightly from 10% to 10.1% due to an increase in restructured advances.

- Overall capital adequacy ratio for the banking sector has improved to 16.54% in September 2021 from 15.84% a year ago as banks have raised capital from the markets in the last year
- The gross non-performing asset (GNPA) ratio of scheduled commercial banks is likely to increase to 9.5 percent in September 2022 from 6.9 percent in September 2021 in a severe stress scenario.
- In accordance with the 24th edition of the RBI's Financial Stability Report (FSR). The gross non-performing asset (GNPA) ratio of SCBs may rise from 6.9 percent in September 2021 to 8.1 percent by September 2022 under the baseline scenario and to 9.5 percent under the severe stress scenario, according to implied macro stress tests for credit risk. The central bank stated in the report that even in times of hardship, the scheduled commercial banks will have enough capital, both collectively and individually. Future close monitoring of these portfolios is required due to emerging indicators of stress in micro, small, and medium-sized enterprises (MSME) as well as the microfinance sector, it was noted. In September 2021, the scheduled commercial banks' provisioning coverage ratio (PCR) was 68.1 percent and their capital to risk-weighted assets ratio (CRAR) reached a new high of 16.6 percent.
- All major categories of financial system risks - global, macroeconomic, financial market, institutional, and general - were classified as "medium" in the Reserve Bank's most current Systemic Risk Survey (SRS), but global and financial market risks were placed ahead than the others.
- The most pressing concerns were commodity prices, domestic inflation, equity price volatility, asset quality degradation, credit expansion, and cyber disruptions.
- According to the report, "the global recovery has slowed in the second half of 2021, owing to a resurgence of infections in several parts of the world, supply disruptions and bottlenecks, persistent inflationary pressures, and shifts in monetary policy stances and actions across systemic advanced economy central banks as well as some emerging market economies."
- From April to October 2021, all central government deficit metrics improved from their pre-pandemic levels. The borrowing scheme has gone smoothly without a hitch. The epidemic has given the Indian business sector strength and resilience, and significant financial metrics of listed non-financial corporate entities have strengthened.

CASE STUDY: ABG SHIPYARD



ABOUT ABG SHIPYARD

ABG Shipyard Ltd is a part of the ABG Group of companies with diversified business interests. Established in 1985, it is headquartered in Mumbai. It has shipbuilding operations in Surat and Dahej in Gujarat. Following its acquisition of Western India Shipyard Limited in October 2010, it operates a ship repair unit in Goa which is the largest ship maintenance facility in India.

ABG became one of the largest private shipbuilding companies in India with a capacity to manufacture vessels up to 20 tonnes in weight.

In January 2019, “a forensic audit by E&Y revealed that ABG had defrauded a 28-member consortium of bankers to the tune of Rs 22000 crores.”

Following this in November 2019, the State bank of India petitioned CBI to conduct an investigation. CBI asked the bank to investigate at their level to check for the involvement of bank insiders which was ruled out subsequently.

Post this in September 2020 “SBI filed a fresh complaint seeking an investigation into the role of public servants and other persons in the fraud”.

In February 2022, a lookout circular was issued against the ABG’s former Chairman Rishi Agarwal and others in the case.

ABG Shipyard Ltd builds a range of commercial vessels. These include self-loading and self-discharging bulk carriers, container ships, floating cranes, split barges, anchor handling tugs, dynamic positioning ships, offshore supply vessels, and diving support vessels.

ABG Shipyard Ltd was granted clearance from the Government of India to build warships and various other vessels for the Indian Navy. It is said that “It was the second corporate shipyard to receive this license after

Pipavav Shipyard.”

In 2004, “it was awarded a contract to build pollution-control vessels for the Indian Coast Guard”.

In 2009, “the Shipyard was selected to build 11 high-speed jet-propelled interceptors for the Coast Guard.”

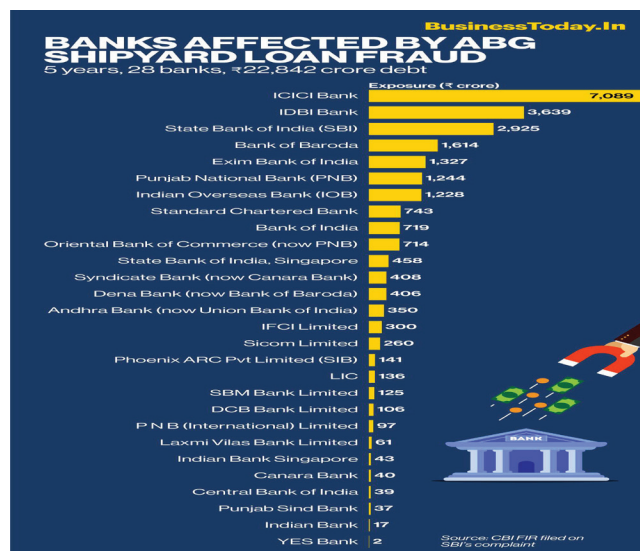
In June 2011, “ABG Shipyard Ltd was awarded a ₹9.7 billion (US\$130 million) deal to build two cadet training ships for the Indian Navy”.

In January 2012, “it won an order of 5 billion order from the Shipping Corporation of India taking its order book to about ₹200 billion (US\$2.6 billion)”. In July 2017, the company agreed to file for insolvency.

4.3 ANALYSIS OF OBJECTIVE 2:

Fundamental Analysis :

The insolvency and NPA crisis



The Central Bureau of Investigation (CBI) finally opened an investigation against ABG Shipyard and its founders for committing a Rs 22,000 crore loan scam, which set off a chain of events. Before the CBI detained the owners of ABG Shipyard, knowledge of their financial misadventures was already well known, even if not many people were aware of it. It was perhaps India’s largest loan fraud case. Multiple fraudulent transactions were found and submitted to the Ahmedabad bench of the National Firm Law Tribunal by the resolution expert in charge of the CIRP of the Surat-based shipping company (NCLT).

The resolution specialist has located over six similar transactions totalling more than one billion rupees. When ordering the liquidation of ABG Shipyard in April 2019, the NCLT agreed with the resolution specialist’s conclusions. However, the CBI took almost three years to formally file an FIR against the firm and its proprietors.

Resolution specialists are required by the Insolvency and Bankruptcy Code (IBC) to investigate if the promoters of a firm in insolvency proceedings have engaged in any fraudulent activities in the past. He or she must then bring the matter to the attention of the NCLT, which, if the findings are found to be valid, may order clawback or disgorgement of value lost as a result of such avoidance activities.

Despite the fact that these transactions are reported by resolution experts, they do not always result in additional investigations by government organisations such as the CBI or the SFIO. Experts believe the issue is the NCLT’s incapacity to close Avoidance Transactions applications on time, providing the requisite legal sanctity to resolution professionals’ judgments. According to the Insolvency and

Bankruptcy Board of India (IBBI), resolution experts have submitted 675 applications with the NCLT so far, pointing out fraudulent transactions worth Rs 2.05 lakh crore carried out by the promoters of insolvent companies. However, only a small percentage of these instances reach their logical end — more investigations and legal action against the perpetrators.

NCLT disposed of virtually none of those items or may have disposed of a few. It is impossible to say if there were Avoidance Transactions till the subject is resolved. Because the RP is neither an authority or a government investigator, the resolution professional can only present the case to the NCLT for a decision. The courts have likewise been of little assistance. In the instance of Jaypee Infratech, resolution expert Anuj Jain brought out the promoters' unlawful property purchases covering 900 acres.

Although the NCLT agreed with the resolution professional's findings, the NCLAT decided to put it on hold. However, the RP appealed to the Supreme Court, where he received a favourable ruling. The avoidance transaction was established thanks to the RP's tenacity, according to the IBBI official described above; nevertheless, he added that not all RPs may have gone to the trouble of following it up in the SC. In another case, the Delhi High Court held that if an avoidance transaction application is not resolved by the end of the insolvency proceedings, the application fails. This produced a great deal of ambiguity because the legislation states that CIRP can be disposed of even though the avoidance transaction is in progress. Furthermore, the law's primary goal is to safeguard lenders' interests by preventing preferential, undervalued, exorbitant, and fraudulent transactions. As a result, the emphasis is on recouping lost value rather than pursuing criminal charges against people involved in these transactions.

A partner at the legal firm Lakshmikumaran & Sridharan, Yogendra Aldak, asserts that Section 69 (of the IBC) holds everyone involved in a fraudulent transaction criminally accountable. Legal professionals advise calling the Serious Fraud Investigation Office (SFIO) to investigate the case if the resolution specialist discovers a sizable number of illegal transactions. The ABG Shipyard is one such case that is under investigation by the SFIO, according to IBBI authorities. According to a business affairs ministry official, the SFIO is currently investigating less than ten such situations where avoidance transactions have been recorded.

SFIO investigates significant instances totalling Rs 500 crore or more, but it has been mandated to look into matters involving lower sums in the public interest. The administration plans to change the law in the meantime to strengthen it. The statute would be amended to clarify that an avoidance transaction application is still valid after the insolvency case is concluded.

The State Bank of India (SBI) alleges in a complaint filed with the Central Bureau of Investigation (CBI) that the shipbuilding firm was responsible for a consortium of 28 banks losing Rs 22,842 crores. ABG Shipyard Limited had an order book worth Rs 16,600 crores at its peak. The Gujarat-based shipyard is being investigated for allegedly

orchestrating India's largest scandal. The State Bank of India (SBI) says in a petition lodged with the Central Bureau of Investigation (CBI) that the shipbuilding firm was responsible for a consortium of 28 banks losing Rs 22,842 crores. According to the CBI's first charges, the Gujarat-based Shipyard procured loans from a number of local banks and used them to purchase assets through offshore firms. As a result, funds were dispersed to parties that were linked. After suffering a loss of Rs 199 crores in 2013, the company is accused of breaking the terms of the Corporate Debt Restructuring Agreement. (CDR). Lending institutions will reduce interest rates or prolong loan payback terms for distressed borrowers under the CDR system. The major causes of the scam, according to SBI, were theft, misappropriation, and criminal breach of trust.

Despite this, the company took steps to prevent legal issues. In 2013-2014, it went through a debt restructuring procedure. Ships and boats were cancelled, there was a shortage of bank finance, exorbitant borrowing rates, a lack of capacity utilisation at the Dahej shipyard near Surat, and the Center's shipbuilding subsidies programme ended in 2007. A display notice from the Directorate of Revenue Intelligence in Mumbai highlighted suspicions of fraud by ABG Shipyard personnel in an independent auditor's report from 2015-16, although some creditors had minimal information concerning the legal procedures taken against them. The History of ABG Shipyard The Ahmedabad Registrar of Companies registered ABG Shipyard as Magdalla Shipyard Pvt Ltd in March 1985.

In May 1995, the company was renamed ABG Shipyard Pvt Ltd, and in June 1995, it was renamed ABG Shipyard Ltd. The company sold its first ship in the 1990s, and as of 2013, it had produced more than 165 ships, with 80 percent of those being for foreign orders. In 2000, the government granted the business its first contract to build two interceptor boats for the Indian Coast Guard. ABG Shipyard was granted permission to build defence ships, including submarines, in 2011. After receiving several claims of fraud, the central investigative agency apprehended Rishi Kamlesh Agarwal, former executive director Santhanam Muthaswamy, directors Ashwini Kumar, Sushil Kumar Agarwal, and Ravi Vimal Nevatia of ABG Shipyard.

The CBI then conducted searches at 13 locations, including Surat, Bharuch, Mumbai, and Pune, which turned up proof in the form of papers. There were several inquiries once the new investigations and accusations were known, including how such a huge scam could have gone undetected for so long and why the CBI registered the FIR so late. The scam was originally identified in 2019 whilst also being subject to a forensic audit by Ernst & Young LLP between 2012 and 2017.

Out of a total debt of 22,842 crores, the firm owes 7,089 crores to ICICI, 2,925 crores to SBI, 3,639 crores to IDBI, 1,614 crores to Bank of Baroda, 1,244 crores to Punjab National Bank and Indian Overseas Bank independently, 1,317 crores to Exim Bank, and 719 crores to Bank of India, among others. Despite the fact that the business secured each of these loans between 2005 and 2010, the CBI claims that the fraud was not identified until the forensic audit. According

to the SBI, the accused party stole funds between 2011 and 2017 and distributed them to affiliated parties. Types of loans provided to the business include CC (cash credit), term, letter of credit, bank guarantee, etc. The State Bank of India (SBI) originally complained to the CBI on November 8, 2019, and on March 12, 2020, the agency asked additional information, resulting in how the CBI FIR came to be. In July 2016 and 2019, respectively, the loan account was declared as a non-performing asset (NPA) and a fraud.

CBI said it used the funds it borrowed from banks to pay off debts, cover other businesses' expenses, and cover letters of credit.

Due to the decline in commodity demand, prices, and subsequent decline in cargo demand, the global crisis has had an impact on the shipping sector. According to the SBI complaint, inventory developed as a result of the cancellation of contracts for a small number of ships and vessels. Because of this, there is a lack of working capital, which has increased the operating cycle significantly and made the liquidity and financial troubles worsened.

It continued that there was no demand for commercial vessels because the industry was already experiencing a slowdown in 2015; this situation was made worse by the lack of defence orders, which made it problematic for the company to comply to its repayment timetable. According to the statement, the ICICI Bank has already reported the company to the NCLT, Ahmedabad, for the corporate insolvency resolution process.

Furthermore, such deceptions raise the issue of how significant financial crimes go unreported until it is too late to make amends. This is the most recent of the financial scandals over the previous ten years, and it might have long-term effects on the already vulnerable economy of the nation. Given that five states in the nation are gearing up for assembly elections, the timing of the scam's discovery is highly arbitrary. The corporation looks to have stolen the money, and the political parties are once more assigning blame. The ED has been investigating reports including the suspected "diversion" of bank loan funds, the establishment of shell companies to launder public monies, as well as the involvement of different company executives.

4.4 ANALYSIS OF OBJECTIVE 3:

Financial Analysis :

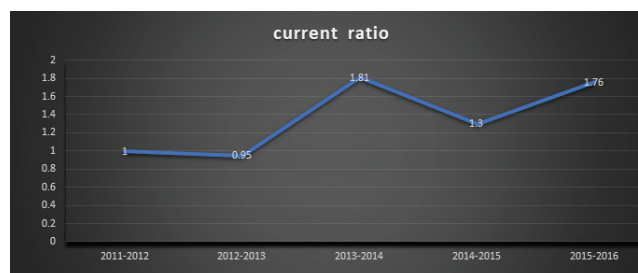
After taking a look at the balance sheet and the cash flow statements of the ABG shipyard co. ltd. We noticed a series of downfall in the various heads of the balance sheet which were better analysed by using ratios.

For doing the financial analysis certain ratios were taken into consideration which are commonly used ratios.

A) Current ratio-The current ratio is a liquidity ratio that measures whether a firm has enough resources to meet its short-term obligations. It compares a firm's current assets to its current liabilities. The ideal current ratio for manufacturing industries is 1.5-2.00. the current ratio of the company is depicted in the line chart below.

The formula for current ratio is:

$$\text{Current ratio} = \text{current assets}/\text{current liabilities}$$



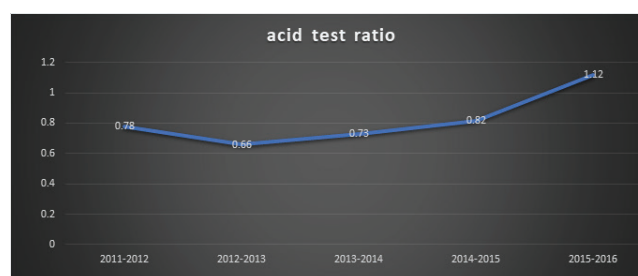
We can see that in 2011-12 the current ratio was 1.00 which is a good ratio but not complying the industrial standards, then in 2012-13 the ratio fell down to 0.95 which is not a good sign for the health of finances in the company and shows a clear sign of heavy debt. Further if we notice that the current ratio was highest in 2013-2014 at 1.81 which shows a good sign of assets which means efficient use of debt was done. Again in 2014-2015 the ratio went down 1.3, lower current ratio means less liquidity though the ratio went up in the next financial year again it was 1.76 in 2015-2016. The conclusion for the current ratio is that a fluctuating current ratio is not good for a manufacturing industry and complying with the industry standards.

B) Acid test ratio- The quick ratio, also known as the acid-test ratio, analyzes data from a company's balance sheet to evaluate if it has adequate short-term assets to pay its short-term liabilities. The acid test ratio formula is:

$$\text{Acid Test} = \frac{\text{Cash} + \text{Marketable Securities} + \text{Account receivables}}{\text{current liabilities}}$$

For most industries, the acid-test ratio should exceed 1. If it's less than 1, then companies do not have enough liquid assets to pay their current liabilities and should be treated with caution.

The acid test ratio or the quick ratio of the company is depicted below in the line chart



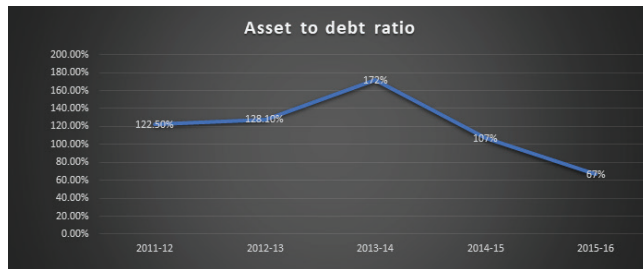
Observing the chart carefully we can see that the quick ratio is pretty satisfactory till 2014-2015 the ratios were under 1.00 which is considered healthy for manufacturing industries in 2011-2012 the ratio was 0.78. In the following year the ratio was 0.66 and in 2013-2014 it was 0.73 the healthiest ratio was in 2014-2015 that was 0.82, but right after that year the ratio increased to 1.12 which is a sign of less liquid companies higher the liquidity ratio lesser the asset coverage for short term.

C) Asset to debt ratio- Total-debt-to-total-assets is a

leverage ratio that indicates how much debt a firm has overall in comparison to its assets. Analysts can compare the leverage of one firm to that of other companies in the same industry using this statistic. This data may reveal a company's level of financial sustainability. The ratio increases with the degree of leverage (DoL), which raises the risk of investment in that firm.

Debt-to-Assets Ratio = Total Debt / Total Assets

The ideal ratio for manufacturing industry is anything less than 50%. The asset to debt ratio of ABG shipyard has been depicted in the line chart given below.



The asset to debt ratio of this company is a pure disappointment, the industry standards stands at 50% whereas this company reached the zenith of 122.5% in the initial year which is taken under consideration for research. In the year 2012-2013 it went 6% high at 128.10% which clearly shows the amount of debt was humongous, in the following year of 2013-2014 the ratio represented the reality of debts taken as it went up to 172% which is a rise of 44%. The company showed a improvement of 65% and the ratio stands at 107% in the year 2014-2015 which was still not according to the standards of the industry but it can be understandable as a ship building company requires a huge amount of capital to run smoothly but taking unnecessary debts should not be the part of the plan. At the end, in the year 2015-2016 the asset to debt ratio came down to 67% which is nearing the industry standards.

5. CONCLUSION

After a series of scam that India saw in the last decade of 2010-2020, whether it is Vijay Mallya or Nirav Modi, or Rana Kapoor, they opened our eyes that how one of our most trusted financial institutions; the commercial banks, are drained due to these scams and public wealth is in wrong hands. ABG shipyard scam is nothing new but the basic case of NPA just this time the amount is ₹22,842 crores. Which is more than the contribution of Vijay Mallya and Nirav Modi collectively that was ₹9000 crores and ₹12000 crores respectively. Loopholes always exist in every management and legal system and there are always some swindlers who take advantage of that. That government should have been a little more concerned towards the banking sector and a system of proper checks and balances should have been implemented. The consortium of banks who provided these loans could have done the proper research as taking heavy loans requires a lot of documentations as well as permissions to get surpassed and forensic accounting should have been done in the past so that the amount of NPA didn't increase as

it is in the status quo.

The recent update is that on 26th April, 2022, the CBI has raided over 26 premises in the search to gather financial documents and related information of the company and the former promoters for the investigation purpose and as of now the fraud/ money laundering case still stands unsolved.

LEGAL REMEDIES AVAILABLE FOR NPA

The most simple and basic way to recover the loss is to create NPA provisioning, in which the banks set aside a certain amount as per the RBI guidelines from their profits and income for the recovery of losses caused by NPAs. NPA requires handling with utmost care and caution as higher the amount of NPA will be the weaker will be the bank revenue streams. Thus, NPA acts as a dead weight on bank's balance sheet.

Beside provisioning our law and judiciary system has also provided us with legal resolution and acts which helps the banks to recover the losses and regain its goodwill and confidence amongst the depositors.

A. LOK ADALAT

One of the alternative dispute resolution procedures established by the government is the Lok Adalat. It serves as a venue for the mutual resolution of legal disputes or cases that are still pending or in the preliminary stages of litigation. The Legal Services Authorities Act, 1987 conferred legal status for Lok Adalats. The decision reached by the Lok Adalats is considered, under the aforementioned Act, to be a decree of a civil court and is conclusive, binding, and not subject to review by any court of law. Although there is no opportunity for an appeal against the Lok Adalat's decision, the parties can still start a lawsuit if they are dissatisfied with it by going to the relevant court, initiating a case, and exercising their legal right to litigation. The Lok Adalats have jurisdiction over matters and disputes with a value of less than ten lakh rupees. The individuals who make decisions in the Lok Adalats are known as Members of the Lok Adalats, and they only serve as statutory conciliators, not as judges. Therefore, they are only permitted to persuade the parties to reach an agreement for addressing the disagreement outside of court in the Lok Adalat and are not permitted to directly or indirectly pressure any party to compromise or settle any case or topic.

B. DEBT RECOVERY TRIBUNALS

The Recovery of Debts Due to Banks and Financial Institutions Act (RDDBFI Act), which was passed in 1993 in response to the sharp increase in NPAs, was designed to provide lenders and borrowers with swift relief through the filing of Original Applications (OAs) in Debt Recovery Tribunals (DRTs) and appeals in Debt Recovery Appellate Tribunals (DRATs).

The DRT also has the authority to rule on applications made by the borrower or mortgagee against secured creditors for

actions conducted in accordance with the Securitization Act. As of right now, the government has established 39 single-member DRTs and 5 DRATs. The issue with the DRTs, like many other debt recovery procedures, is that they take a long time to resolve cases that are still unresolved disputes because of how lengthy the process takes.

C. SARFAESI ACT

The full form of SARFAESI Act as we know is Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. Banks utilize this act as an effective tool for bad loans (NPA) recovery. It is possible where non-performing assets are backed by securities charged to the Bank by way of hypothecation or mortgage or assignment:

- Upon loan default banks can seize the securities (except agricultural land) without intervention of the court.
- SARFAESI is effective only for secured loans where bank can enforce the underlying security e.g. hypothecation, pledge and mortgages. In such cases, court intervention is not necessary, unless the security is invalid or fraudulent. However, if the asset in question is an unsecured asset, the bank would have to move the court to file civil case against the defaulters.

SARFAESI ACT - IMPORTANT ASPECT

1. Before the introduction of SARFESI act, banks and financial institutions had to appeal to the court for the repayment of bad loans, but after this act's implementation there is no need of mediation of court in the process.
2. Additionally, under this Act, banks and financial institutions have the power to send notices of collection to defaulting guarantors and borrowers, demanding them to pay all unpaid loans within 60 days.
3. In case the borrower and/or guarantor fails to comply with the 60 days' notice issued by the bank or financial institution in repayment of full dues, then the bank and/or financial institution can:
 - (a) "Take the possession or the management of secured assets of the borrower, and also can transfer the same by way of lease, assignment or sale for realizing the secured assets without the intervention of a court/DRT".
 - (b) "Appoint any person to manage the secured assets which have been taken over by the secured creditor (bank)".
 - (c) "Also instruct at any time by a notice in writing to a person"
 - (i) "who holds secured assets of the borrower"
 - (ii) "from whom any money due or becoming due to the borrower"
 - (iii) "to pay such money to the secured creditor (bank)".

SECURITIZATION

"Securitization is the process by which a securitization

or reconstruction firm acquires a financial asset from a lender (bank or financial institution). The reconstruction or securitization firm may collect funds from competent institutional investors for the acquisition of a financial asset through the distribution of security receipts expressing an undivided interest in the financial assets or by other means".

SECURITY RECEIPTS

any receipt or any other security provided to a qualified institutional buyer by a reconstruction or securitization firm. The security receipt serves as evidence of the holder's acquisition of an undivided right, title, or interest in the financial instrument that is the subject of the securitization. The market permits the transfer of security receipts. The SARFAESI Act enables the transfer of loans with mortgage or other security interests.

ASSET RECONSTRUCTION

An asset reconstruction firm's duty is to undertake bank or financial institution liabilities or advances in order to retrieve them. In other words, asset reconstruction is the method by which any securitization company or reconstruction business acquires any interest or right of any banking or finance institution in any financial assistance for the purpose of attaining such financial assistance. When a financial asset is acquired, the securitization or reconstruction firm assumes charge of the asset, thereby replacing the lending bank or financial institution. This transaction is also known as a sale of an asset without the engagement of a bank or other financial institution. The Reserve Bank of India oversees all firms active in securitization or reconstruction. It is a securitization company registered under the Companies Act of 1956, and it must also be registered with the RBI in compliance with the SARFAESI Act.

D. INSOLVENCY AND BANKRUPTCY CODE

Both the creditors and a corporate debtor that has fallen behind on payments can start the IRP. When the IRP is started, the creditors' claim must be resolved within 180 days. During this time, the creditors will hear revival ideas and make decisions about the next steps. 75% of financial creditors must approve a resurrection plan within those 180 days. If this bare minimum is not reached, the company will automatically enter liquidation. If instructed to do so by a resolution adopted at a meeting of the committee of creditors by a vote of 75% of the voting shares, the resolution professional must submit an application to the adjudicating authority to extend the duration of the corporate insolvency resolution process past one hundred eighty days. Sections 7, 9, and 10 of the Insolvency and Bankruptcy Code were suspended by the government under an ordinance known as the Insolvency and Bankruptcy Code ordinance of 2020, which was created to protect defaulting corporations from being forced into insolvency as a result of the disruptions brought on by the coronavirus pandemic. The Insolvency and Bankruptcy Code primarily aids in dealing with debt recovery from non-performing assets (NPAs), which enables

banks effectively recover their debt and be relieved of the load of the NPA, maintaining the health and preventing undue stress in banks and financial institutions.

CONCLUSION

India stands at 33 out of 137 countries in case of bad NPAs and has the second worst NPA ratio among large economies. Throughout the research we found that many public as well as private sector banks have been equally contributing in the rise of NPAs. In the last few years various scams have come up to the notice of the government and those scams have exponentially increased the amount of NPAs in our country. We thought that the past scams were the biggest but this new scam surpassed everyone's expectation and created a big headline as well as gained international attention too. It is an alarming situation for the banks, depositors as well as the government to take strict action against these scammers. Though our judicial system has protective acts against these financial frauds but we have realised that they are not as effective as they should be so here the banks play an important role and they should be more aware while lending out to the huge revenue generating companies. The government should also take some crucial steps to aid the bankers and safeguard the interest of depositors.

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