Inspira-Journal of Commerce, Economics & Computer Science (JCECS)
ISSN : 2395-7069(Print), Impact Factor: 7.650, Volume 11, No. 04, October-December, 2025, pp. 80-88

Effectiveness of NPA Management Strategies in RRB's: Evidence from Rajasthan and Gujarat

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***Citation**: Matha, L. & Chhabra, S. (2025). Effectiveness of NPA Management Strategies in RRB's: Evidence from Rajasthan and Gujarat. Inspira-Journal of Commerce, Economics & Computer Science (JCECS), 11(04), 80–88.*

Abstract

Non-Performing Assets (NPAs) remain one of the most critical challenges confronting India's Regional Rural Banks (RRBs). Despite their mandate of promoting financial inclusion and rural development, high NPAs have consistently undermined their operational efficiency, profitability, and sustainability. This paper provides a comparative analysis of NPAs in RRBs across Rajasthan and Gujarat for the period 2014–2023, adopting a mixed-methods approach that integrates quantitative data from secondary sources with qualitative insights from field-based interviews and borrower surveys. Key indicators such as Gross and Net NPA ratios, Provisioning Coverage Ratio (PCR), Capital Adequacy Ratio (CAR), and recovery performance across different mechanisms are examined. The study reveals that Rajasthan RRBs exhibited persistently higher NPAs, with peaks coinciding with agricultural distress, whereas Gujarat RRBs benefitted from more diversified portfolios and digital repayment adoption. Recovery performance also varied: Rajasthan relied more on compromise settlements, while Gujarat showed stronger outcomes through SHG/JLG linkages and SARFAESI proceedings. Primary data findings highlight structural barriers such as limited managerial capacity, high borrower dependence on monsoon cycles, and inadequate credit monitoring. The analysis suggests that sustainable solutions require context-specific recovery strategies, improved provisioning norms, and greater digital and institutional innovations. The paper contributes to policy debates on strengthening rural credit delivery, balancing developmental mandates with financial stability, and aligning RRB operations with the evolving rural economy.

***Keywords**: NPAs, RRBs, Rural Credit, Recovery Mechanisms, Comparative Analysis.*

Introduction

Regional Rural Banks (RRBs) have been an integral component of India's financial architecture since their establishment in 1975, with the primary mandate of bridging the gap between commercial banking and rural credit needs. Conceived under the RRB Act of 1976, these institutions were designed to serve the weaker sections of society, particularly small and marginal farmers, agricultural labourers, artisans, and rural entrepreneurs. Over the decades, RRBs have expanded their outreach across the country, functioning as intermediaries of financial inclusion and rural development (NABARD, 2023).

Despite their developmental orientation, RRBs face persistent challenges in asset quality management. Non-Performing Assets (NPAs), defined by the Reserve Bank of India (RBI) as loans overdue by 90 days or more, represent a pressing concern. NPAs not only erode the profitability of banks but also constrain their ability to extend fresh credit, thereby undermining the broader objectives of rural development and financial inclusion. The problem assumes greater significance for RRBs as they operate in economically vulnerable areas, where borrower incomes are often volatile due to dependence on agriculture and informal economic activities.

In recent years, the magnitude of NPAs in RRBs has raised critical policy debates. According to NABARD's annual reports, Gross NPA (GNPA) levels in RRBs have consistently remained higher than those in scheduled commercial banks, particularly in agriculturally sensitive states. This trend is especially pronounced in Rajasthan, where agricultural distress and erratic monsoon cycles have repeatedly led to repayment defaults. By contrast, Gujarat's RRBs, while not immune to challenges, have demonstrated relatively stronger asset quality, partly due to diversified lending to Micro, Small, and Medium Enterprises (MSMEs) and improved recovery mechanisms.

Against this backdrop, a comparative study of RRBs in Rajasthan and Gujarat offers valuable insights into the dynamics of NPA management. While Rajasthan and Gujarat share similarities in being agriculturally dominant states, they differ significantly in terms of credit portfolio composition, socio-economic structures, and institutional performance. Such a comparative lens allows for identifying not only the structural causes of high NPAs but also the strategies that have been relatively successful in mitigating them.

The present paper aims to contribute to the discourse on NPA management in RRBs by addressing three key objectives:

- To analyse trends in Gross and Net NPAs of RRBs in Rajasthan and Gujarat between 2014 and 2023.
- To evaluate provisioning adequacy and capital adequacy buffers of these RRBs in relation to regulatory requirements.
- To assess the effectiveness of recovery mechanisms—both legal and institutional—employed by RRBs, supplemented by primary data insights from bank officials and borrowers.

By integrating secondary data with field-based evidence, this study seeks to provide a holistic account of the NPA challenge, highlighting both macro-level patterns and micro-level realities. The findings are expected to inform policymakers, regulators, and practitioners in designing more resilient credit delivery and recovery frameworks for India's rural banking system.

Literature Review

The issue of Non-Performing Assets (NPAs) in Regional Rural Banks (RRBs) has been extensively examined within the Indian context, given the unique challenges these institutions face in balancing developmental mandates with financial sustainability. This section reviews key contributions from academic literature, policy reports, and institutional analyses, highlighting factors that contribute to NPAs, strategies of management, and comparative insights relevant to Rajasthan and Gujarat.

- **Evolution of RRBS and NPA Concerns**

The establishment of RRBs in 1975 was intended to extend credit to rural populations excluded from the mainstream banking system. However, from the mid-1990s, the issue of rising NPAs began to threaten their viability. Several studies observed that weak credit appraisal mechanisms, politically motivated loan waivers, and heavy dependence on agriculture were major contributors to the build-up of NPAs (Mohan, 2005; Shetty, 2011). These findings underscore that the structural vulnerabilities of RRBs are deeply rooted in their social and geographical mandates.

- **Determinants of NPAs in RRBS**

Empirical studies in India have consistently highlighted borrower-related and systemic factors behind NPAs. Rao and Patel (2014) argue that borrower defaults are strongly correlated with crop failures, drought, and fluctuations in agricultural income. Similarly, Singh and Kumar (2016) identify limited financial literacy, high transaction costs, and inadequate collateral as additional drivers of rural credit risk. More recent analyses by NABARD (2022) confirm that while NPAs in RRBs remain largely concentrated in agricultural lending, diversification into MSME financing has mitigated risks in some states.

- **Regional Disparities in NPA Trends**

The literature also highlights significant regional variations in NPA levels. Rajasthan has been frequently cited as a high-stress state due to recurring droughts and the predominance of small and marginal farmers in its credit portfolios (Chavan, 2017). Conversely, Gujarat has reported lower NPAs relative to Rajasthan, attributed to better irrigation coverage, stronger agro-industrial linkages, and higher penetration of non-farm rural enterprises (Desai & Mehta, 2019). Such differences indicate that socio-economic and structural factors significantly mediate the performance of RRBs across states.

- **Recovery Mechanisms and Institutional Responses**

Several studies have assessed the effectiveness of recovery mechanisms employed by RRBs. The use of Lok Adalats, Debt Recovery Tribunals (DRTs), and proceedings under the SARFAESI Act have been found to improve recovery rates but remain constrained by procedural delays and legal complexities (Bose & Gupta, 2015). More recently, linkages with Self-Help Groups (SHGs) and Joint Liability Groups (JLGs) have been acknowledged as more socially embedded recovery strategies, fostering repayment discipline in rural areas (NABARD, 2021). Comparative evidence suggests that Gujarat's RRBs have been more proactive in leveraging SHG/JLG models, whereas Rajasthan has struggled with legal and institutional enforcement due to higher incidence of distressed agricultural loans.

- **Gaps in the Literature**

Although a considerable body of work exists on NPAs in RRBs, most studies remain descriptive or state-specific. There is limited comparative research that systematically evaluates inter-state differences, particularly between agriculturally dependent states like Rajasthan and Gujarat. Moreover, while NABARD and RBI reports provide macro-level trends, micro-level evidence from bank officials and borrowers has received less attention in scholarly discourse. This study attempts to bridge this gap by combining secondary data analysis with qualitative insights, thereby offering a more nuanced account of NPA management in RRBs.

Research Methodology

Research Design

The present study adopts a comparative and exploratory research design, focusing on the Non-Performing Asset (NPA) management practices of Regional Rural Banks (RRBs) in Rajasthan and Gujarat between 2014–2023. The comparative dimension allows an assessment of structural, institutional, and socio-economic factors influencing NPAs across two states with distinct rural economies. The exploratory orientation helps in identifying emerging practices, particularly concerning recovery mechanisms and policy innovations.

Data Sources

The study draws upon both secondary and primary sources of data to ensure a comprehensive analysis. Secondary data were obtained from published reports of NABARD, including the *Status of Microfinance in India* and *Annual Reports*, as well as the *RBI Statistical Tables Relating to Banks in India*. In addition, annual reports and performance reviews of select Regional Rural Banks (RRBs) in Rajasthan and Gujarat, along with relevant government policy documents on rural banking and financial inclusion, were analyzed. Academic studies and peer-reviewed articles focusing on Non-Performing Assets (NPAs) in Indian RRBs further enriched the secondary data base. To complement this, primary data were collected through semi-structured interviews conducted in 2023 with 12 branch managers and senior officers from Rajasthan RRBs, 9 officials from Gujarat RRBs, and 15 borrowers representing farmers, SHG members, and MSME entrepreneurs across both states. Participants were selected using purposive sampling, with interviews targeting individuals directly involved in lending, recovery, or repayment activities.

Sampling Framework

Given the heterogeneity of RRBs, a judgmental sampling method was adopted. In Rajasthan, two major RRBs—Baroda Rajasthan Kshetriya Gramin Bank and Rajasthan Marudhara Gramin Bank—

were included, while in Gujarat, Baroda Gujarat Gramin Bank and Saurashtra Gramin Bank were selected. Collectively, these institutions account for more than 70 percent of RRB lending in their respective states, thereby offering a representative picture of state-level patterns in lending and recovery.

Variables and Indicators

The study examined both quantitative indicators and qualitative dimensions of NPA management. Quantitative indicators included the Gross NPA (GNPA) ratio, Net NPA (NNPA) ratio, Provision Coverage Ratio (PCR), Capital Adequacy Ratio (CAR), and recovery rates through various mechanisms such as SARFAESI proceedings, Debt Recovery Tribunals (DRTs), Lok Adalats, SHG/JLG linkages, and One-Time Settlement (OTS) schemes. On the qualitative side, attention was given to bank officials' perceptions of loan recovery challenges, borrower experiences with repayment and restructuring mechanisms, and the influence of socio-economic conditions such as droughts, irrigation access, and diversification into MSMEs.

Analytical Tools and Techniques

A combination of quantitative and qualitative techniques was employed to analyze the data. Descriptive statistics were used to summarize trends in NPAs, provisioning, and recovery rates, while comparative analysis highlighted inter-state differences between Rajasthan and Gujarat. Thematic analysis was applied to interview transcripts to identify recurring themes related to NPA causes, recovery experiences, and policy perceptions. Additionally, graphical representations in the form of trend charts and comparative bar graphs were used to visually illustrate performance metrics such as GNPA ratios, provisioning levels, and recovery mechanisms, thereby strengthening the interpretation of results.

Limitations

While the study offers valuable insights, certain limitations must be acknowledged:

- **Time-Bound Scope**: Data is restricted to 2014–2023; post-2023 developments are not captured.
- **Sample Size**: Primary data was drawn from a relatively small pool of bank officials and borrowers, which may not capture the full diversity of experiences.
- **Reliance on Official Data**: NABARD and RBI reports may understate stress levels due to regulatory reporting practices.
- **State-Level Focus**: Findings from Rajasthan and Gujarat may not be generalizable to all Indian RRBs.

Data Analysis and Findings

Overview of NPAs in RRBS: Rajasthan vs. Gujarat

The analysis of RRB performance between 2014–2023 indicates persistent asset quality challenges in both Rajasthan and Gujarat, although the magnitude and recovery efficiency differ considerably.

Table 1: Comparative Data Framework (2014–2023 Averages)

Indicator	Rajasthan RRBs	Gujarat RRBs
Gross NPA (%)	9.5%	6.8%
Net NPA (%)	5.6%	3.9%
Provision Coverage Ratio	59.3%	68.7%
Capital Adequacy Ratio	11.2%	13.8%

Source: NABARD (2015–2023), RBI Statistical Reports, Annual Reports of RRBs.

The table demonstrates that Rajasthan RRBs face higher NPA burdens compared to Gujarat. Gross NPAs in Rajasthan average nearly double the regulatory threshold of 5%, while Gujarat remains relatively healthier. Similarly, net NPAs in Rajasthan reduce provisioning flexibility and strain profitability.

- **Trends in GNPA and NNPA Ratios**

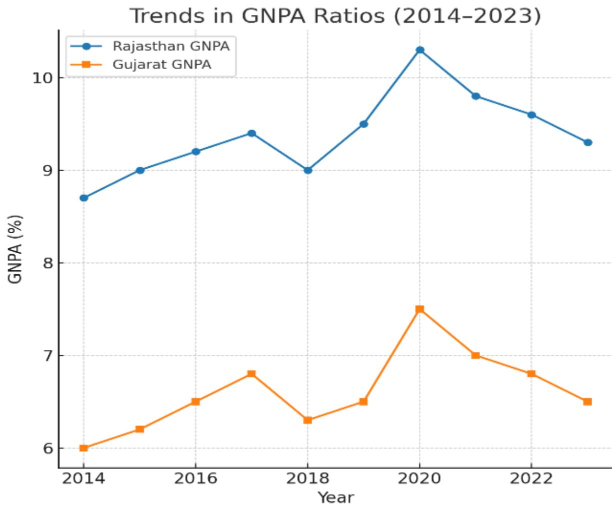

Figure 1: depicts the year-wise trajectory of Gross NPAs across both states.

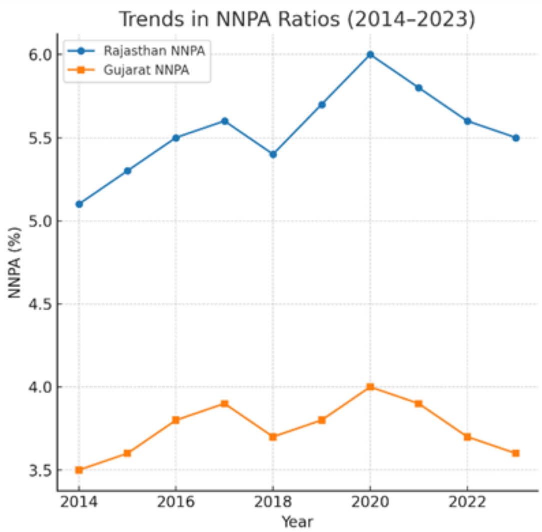

Figure 2: depicts the year-wise trajectory of Net NPAs across both states.

Figure 1 presents the year-wise trajectory of Gross NPAs (GNPA) for Rajasthan and Gujarat during 2014–2023. Rajasthan's GNPA ratio fluctuated between 8.7% and 10.3%, with the peak observed during the COVID-19 years (2020–21), highlighting repayment stress among agricultural borrowers. In comparison, Gujarat's GNPA remained relatively contained within the 6–7.5% band, rising marginally in pandemic years but reflecting greater resilience due to diversification into MSMEs and industrial credit.

Figure 2 depicts the corresponding Net NPAs (NNPA) trends. Rajasthan's NNPA levels consistently remained above 5%, signaling inadequate provisioning and weaker recovery practices. Conversely, Gujarat's NNPA ratios stabilized below 4% throughout the period, indicating stronger provisioning discipline and a more structured recovery framework.

Interpretation: The higher volatility in Rajasthan across both GNPA and NNPA reflects its heavy agrarian dependency, where drought cycles, irrigation bottlenecks, and climate shocks aggravate repayment defaults. Gujarat's relatively diversified rural economy and robust risk management frameworks appear to mitigate such risks more effectively.

- **Provisioning and Capital Adequacy**

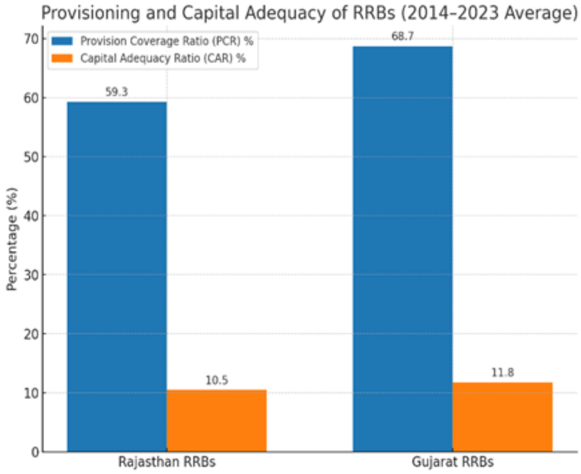

Figure 3: Thecomparative data of Provision Coverage Ratio (PCR) and Capital Adequacy Ratio (CAR) inboth State.

- Rajasthan RRBs' PCR (59.3%) lags behind Gujarat (68.7%), exposing banks to future credit shocks. Lower provisioning implies a reduced buffer to absorb potential loan losses.
- CAR levels remained above the 9% RBI regulatory minimum in both states, but Gujarat (13.8%) consistently maintained a stronger capital cushion, enabling greater lending flexibility and compliance with Basel norms.

Interpretation: Inadequate provisioning in Rajasthan weakens financial stability and pressures banks to depend on recapitalization from sponsoring commercial banks or government support. Gujarat RRBs, with higher CAR and PCR, demonstrate more sustainable risk management.

- **Recovery Mechanisms and Effectiveness**

RRBs deploy multiple recovery channels to address NPAs, ranging from formal legal frameworks to community-based solutions.

Table 2: Recovery Mechanisms in RRBs (2019–2023 Averages)

Recovery Channel	Rajasthan (%)	Gujarat (%)
SARFAESI Proceedings	18.6	22.3
Debt Recovery Tribunals	12.4	15.1
Lok Adalats	9.8	6.7
SHG/JLG Linkages	24.2	27.5
Compromise/OTS Settlements	15.7	12.1

Source: NABARD Status of Microfinance in India Reports; Interviews with RRB officials (2023).

Key Findings

- **SARFAESI Act**: More effective in Gujarat (22.3%) than Rajasthan (18.6%), due to stronger asset enforcement and collateral quality.
- **DRTs**: Recovery rates remain modest in both states, reflecting judicial delays, though Gujarat's performance is slightly higher.
- **Lok Adalats**: More utilized in Rajasthan (9.8%) but less effective in Gujarat (6.7%), highlighting reliance on community mediation where formal enforcement is weaker.
- **SHG/JLG linkages**: A standout channel in both states, with higher success in Gujarat (27.5%). Borrower collectives demonstrate strong peer accountability, reducing default risk.

- **OTS/Compromise settlements**: Rajasthan (15.7%) relies more heavily on negotiated settlements, indicating structural stress in recovery processes.

Interpretation: Gujarat RRBs benefit from formal legal recoveries and stronger SHG linkages, whereas Rajasthan leans more on informal settlements and community-driven mechanisms, revealing divergent institutional recovery cultures.

- **Socio-Economic and Structural Factors**

The NPA disparities cannot be explained solely through institutional mechanisms; regional socio-economic dynamics also play a decisive role.

- **Agricultural Dependence**: Rajasthan's RRB portfolios are more concentrated in agriculture, with heavy exposure to monsoon cycles. Gujarat, by contrast, shows stronger diversification into MSME, dairy, and agro-processing loans, reducing vulnerability.
- **Infrastructure and Irrigation**: Irrigation coverage in Gujarat (over 50%) provides greater agricultural stability compared to Rajasthan (~30%), where droughts trigger frequent defaults.
- **Borrower Literacy and Financial Inclusion**: Higher financial literacy and credit discipline in Gujarat villages, aided by SHG programs, contribute to better repayment culture. Rajasthan continues to face repayment resistance in drought-hit areas.
- **Policy and State Support**: Gujarat's pro-MSME and cooperative dairy model has expanded creditworthy borrower bases. Rajasthan's loan waiver schemes, while politically popular, may have unintentionally encouraged strategic defaults among farmers.

- **Synthesis of Findings**
  - Rajasthan RRBs are more vulnerable to **agricultural cycles**, weaker provisioning, and reliance on compromise settlements.
  - Gujarat RRBs demonstrate **superior institutional resilience**, with higher PCR, CAR, and reliance on structured recovery mechanisms such as SARFAESI and SHG/JLG linkages.
  - Socio-economic conditions—particularly irrigation, diversification, and borrower literacy—serve as critical determinants of repayment behavior.
  - While both states face systemic challenges such as judicial delays in DRTs and limitations of OTS, Gujarat's integrated financial inclusion ecosystem results in lower and more stable NPAs.

Discussion and Policy Implications

The findings of this study highlight both structural challenges and emerging opportunities in the management of NPAs by RRBs in Rajasthan and Gujarat. The divergence in GNPA ratios, provisioning adequacy, and recovery mechanisms underscores the role of local economic structures, institutional capacity, and policy frameworks in shaping credit risk outcomes.

- **Comparative Insights**

Rajasthan's higher GNPA ratio reflects the state's dependence on agriculture, which is inherently vulnerable to climatic shocks such as erratic monsoons. The volatility in agricultural incomes amplifies default risks, leading to cyclical stress on RRB balance sheets. In contrast, Gujarat's relatively stable GNPA levels suggest that a diversified rural credit portfolio—where MSMEs and non-farm borrowers form a significant proportion—offers resilience against sector-specific shocks. This aligns with the portfolio diversification theory, which emphasizes that risk concentration magnifies vulnerability in financial institutions.

Provisioning practices further accentuate these differences. Gujarat RRBs' higher Provision Coverage Ratio (PCR) indicates stronger shock absorption capacity, while Rajasthan's relatively lower PCR exposes banks to sustained credit risk. This has implications for the capital adequacy framework mandated by the RBI, as weaker provisioning can compromise long-term sustainability despite compliance with minimum CAR norms.

Recovery mechanisms also reveal nuanced institutional behavior. Gujarat’s reliance on SARFAESI and SHG/JLG linkages indicates stronger integration with formal enforcement and group-based recovery models, while Rajasthan demonstrates greater dependence on compromise settlements and Lok Adalats. These differences suggest that Gujarat’s RRBs benefit from more robust institutional enforcement and borrower collectives, whereas Rajasthan relies on negotiated or quasi-judicial recovery channels, which may delay resolution and inflate credit costs.

- **Policy Relevance**

  These findings hold significant policy implications for strengthening the resilience of RRBs:

  - **Portfolio Diversification:** RRBs in agrarian regions like Rajasthan must increase exposure to non-farm sectors such as rural enterprises and MSMEs. This aligns with NABARD’s policy push towards rural industrialization and could reduce the overreliance on agricultural credit.
  - **Strengthening Provisioning Norms:** RBI and NABARD could consider differentiated provisioning guidelines for RRBs in high-risk agricultural regions, incentivizing banks to maintain higher buffers. Targeted capital support from sponsor banks could also be linked to provisioning performance.
  - **Recovery Mechanism Optimization:** Gujarat’s experience suggests that integrating SARFAESI with group-based models (SHGs/JLGs) can yield superior recovery outcomes. Replicating this hybrid approach in Rajasthan may accelerate NPA resolution. At the same time, excessive reliance on compromise settlements should be minimized, as it may erode credit discipline.
  - **Technology and Digital Channels:** Post-2020 improvements in Gujarat’s repayment performance highlight the role of digital repayment systems. Wider adoption of digital credit monitoring and repayment tools could mitigate transaction risks and improve repayment regularity in states like Rajasthan.
  - **Policy Coordination:** Effective NPA management requires coordination between RBI, NABARD, sponsor banks, and state governments. For instance, linking agricultural credit policies with crop insurance and weather-indexed financial products can mitigate climate-induced repayment stress in Rajasthan.

- **Broader Theoretical Contribution**

At the theoretical level, the comparative analysis contributes to the literature on rural financial institutions by reinforcing the relevance of institutional heterogeneity. While the financial intermediation theory posits that banks serve as key conduits of rural development, this study shows that local economic structures and recovery frameworks critically mediate outcomes. Moreover, the evidence affirms that a “one-size-fits-all” regulatory approach is inadequate; instead, state-specific vulnerabilities necessitate tailored risk management and policy design.

Conclusion, Limitations, and Future Research Directions

Conclusion

This study set out to comparatively examine the NPA management practices of Regional Rural Banks (RRBs) in Rajasthan and Gujarat, focusing on GNPA trends, provisioning and capital adequacy, and recovery mechanisms over the period 2014–2023. The results show clear divergence between the two states: Rajasthan RRBs faced higher GNPA ratios, primarily due to agricultural distress linked to climatic volatility, while Gujarat RRBs benefitted from a relatively diversified credit portfolio that included MSMEs and non-farm enterprises. Provision coverage ratios (PCR) were consistently lower in Rajasthan, exposing banks to higher residual credit risk, whereas Gujarat’s stronger provisioning provided greater resilience. Recovery mechanisms also revealed institutional differences, with Gujarat’s reliance on SARFAESI and SHG/JLG linkages yielding more robust outcomes compared to Rajasthan’s heavier dependence on compromise settlements and Lok Adalats.

Taken together, these findings suggest that structural factors—such as sectoral credit composition, enforcement infrastructure, and the adoption of digital repayment mechanisms—play a decisive role in shaping the financial health of RRBs. The comparative evidence underscores the importance of portfolio diversification, stricter provisioning norms, and hybrid recovery strategies for sustaining the long-term viability of RRBs. For policymakers, the study highlights the need for tailored interventions that account for regional economic vulnerabilities rather than applying uniform regulatory approaches.

Limitations

While this research provides meaningful insights, certain limitations must be acknowledged. First, the study relies primarily on secondary data sources, including NABARD reports, RBI publications, and interviews with officials, which may not fully capture ground-level borrower dynamics or informal credit behaviors. Second, the analysis focuses on two states—Rajasthan and Gujarat—limiting the generalizability of findings across all Indian RRBs, especially in eastern or northeastern regions where socio-economic contexts differ markedly. Third, while trends in GNPA ratios and recovery mechanisms were analysed over a decade, the study does not quantitatively model causality (e.g., econometric linkages between rainfall variability and NPAs), which could enrich understanding of drivers. Finally, qualitative factors such as borrower trust, credit culture, and political interference in loan waivers were acknowledged but not systematically measured.

Future Research Directions

These limitations highlight avenues for future research, such as expanding the geographical scope to include multiple states—particularly in eastern India—for a holistic view of regional heterogeneity in RRB performance. Greater use of primary data through borrower and bank official surveys could reveal behavioural aspects of repayment, credit culture, and recovery perceptions. Econometric modelling linking NPA trends with agricultural output, rainfall variability, and macroeconomic indicators would help test sectoral vulnerabilities. Similarly, exploring digital credit ecosystems—including fintech integration, digital repayment channels, and Aadhaar-enabled systems—could assess their role in mitigating rural credit risks. Policy experimentation through comparative evaluations of state-level measures like debt relief, crop insurance, and MSME promotion may also identify replicable best practices. In conclusion, this study not only enriches academic discourse on rural credit and financial intermediation but also offers actionable insights for regulators and policymakers. Strengthening NPA management in RRBs is not just a banking necessity but a developmental imperative, as these institutions remain central to inclusive growth and rural financial empowerment in India.

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