

ARCs recovery rate set to accelerate

Asset performance, strategic shifts will be the key drivers of improvement

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Executive summary

The asset reconstruction industry is critical for resolving stressed assets and invigorating economic growth. If left unaddressed, stressed assets can lose economic value, leading to a vicious cycle of destruction of labour and capital resources, thereby increasing the cost of their resolution. The disposal of non-performing loans (NPLs) to asset reconstruction companies (ARCs) by way of issuance of security receipts (SRs) can strengthen balance sheets in the banking sector, provide liquidity and reduce management costs. ARCs bring efficiency, expertise and financing to the resolution process, thereby preserving the value of stressed but viable businesses. The longer a business is in distress, the more its value declines, making timely resolution crucial.

We did an in-depth, objective study of SRs worth ~Rs 34,000 crore across over 330 trusts, which indicates a cumulative recovery rate of 75-80% for ARCs for fiscal 2026, a good 1,500 basis points (bps) rise from the previous fiscal.

There are several reasons for this.

First, the higher proportion of low-vintage assets in new acquisitions by ARCs, driven by regulatory flexibility for acquisition of special mention accounts (SMAs).

Second, the healthy performance and outlook of key infrastructure sectors — real estate, thermal power and roads. Improvement in these sectors and acquisition of operationally viable assets have enabled ARCs to arrive at restructuring plans, leading to higher recoveries in comparison to other modes of resolution such as the Insolvency and Bankruptcy Code (IBC).

Third, ARCs have been selectively acquiring corporate as well as retail pools. The retail pools, both secured and unsecured asset classes, have seen an increase in redemption rates, driven by acquisition of low-vintage accounts and healthy settlement rates across asset classes.

India's resolution landscape has witnessed ARCs continuing to favour restructuring as their primary strategy. In contrast, IBC-based resolutions have struggled to gain significant traction owing to sluggish recovery rates and prolonged timelines. Moreover, after the recent Supreme Court judgment invalidating actions taken under an IBC-based resolution, procedural compliance by all stakeholders will remain in focus.

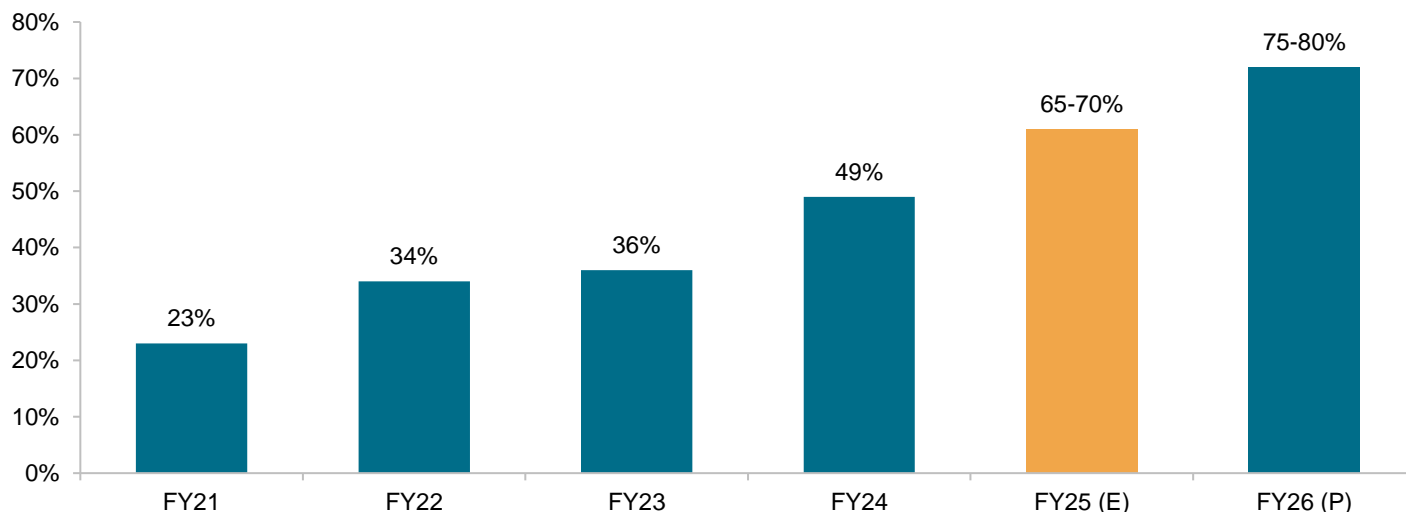
Multi-year low gross non-performing assets (GNPAs) have slowed the supply of stressed corporate assets for ARC acquisition, resulting in recoveries improving over a sluggishly growing base.

As regulations continue to evolve for the sector, key drivers such as regulatory reforms, including flexible settlement policies and strengthened governance frameworks will play a pivotal role in shaping the future trajectory of ARCs.

Cumulative recovery rate of our SR portfolio to rise 1,500 bps

Over the last three fiscals, ARCs have leveraged an improving business environment for revival and recovery from stressed assets. As a result, the cumulative recovery rate of our portfolio of SRs is estimated at 65-70% in fiscal 2025 and is projected to touch a new high of 75-80% in fiscal 2026, marking the third straight year of 15% annual growth.

Chart 1: Cumulative recovery rate for SRs rated by us



Note: E — estimated; P — projected

Cumulative recovery rate = Cumulative gross recoveries / cumulative SRs issued

Source: Crisil Ratings analysis of 398 trusts with debt of Rs 191,126 crore

Crisil Ratings rates ~35% of overall rated AUM as of June 2025

Three drivers of the rise in recovery rate

1. Higher proportion of low-vintage assets

The Reserve Bank of India (RBI), through a circular in October 2022, allowed ARCs to acquire SMAs.

As a result, SMAs accounted for around 30% of new acquisitions in fiscal 2025, up from 14% in the previous fiscal, among SRs rated by Crisil Ratings. This shift towards low-vintage assets is expected to continue as ARCs find such assets lucrative with possibility of recoveries upfront rather than back-ended. Therefore, ARCs are likely to prioritise acquisition of new deals, aiming for timely interventions and faster resolutions.

2. Healthy performance of stressed assets in infrastructure and retail loans

The government remains committed to infrastructure development, with capital expenditure (capex) budgeted at 3.1% of the gross domestic product (GDP) for fiscal 2026, ensuring sectors such as roads, ports and renewable energy continue to receive strong support. Of the expected recovery of ~Rs 12,000 crore in fiscal 2026 for the SR portfolio rated by Crisil Ratings, about half will be from stressed assets in the real estate, thermal power and roads sectors, up from ~34% last fiscal. This will be driven by factors such as price escalations, government initiatives, strategic investments and improved market conditions.

At the same time, recoveries in the retail pools acquired by ARCs have also seen an uptick. Retail pools churn faster than corporate loans, resulting in faster redemptions. We shall discuss this in detail in subsequent sections.

3. Slower pace of new acquisitions compared to incremental recoveries

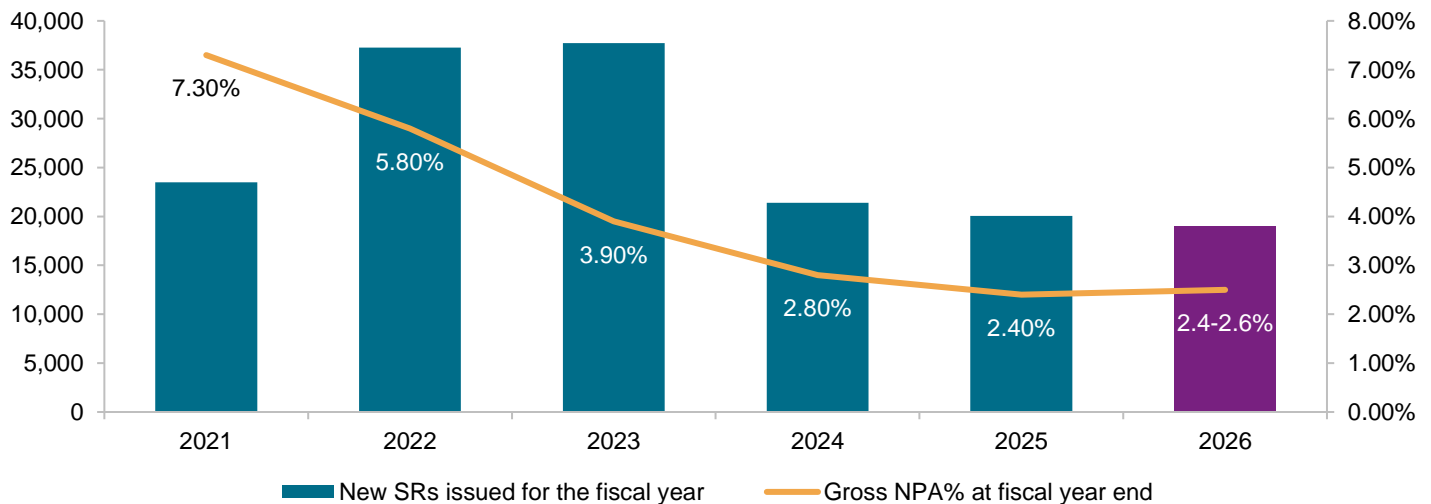
After touching a decadal low in March 2024, the GNPA's of the banking sector continue to trend down and are estimated at 2.4% as of March 2025.

The assets under management (AUM) of ARCs saw significant growth during a period of sharp rise in GNPA's in the banking sector. Today, however, the asset quality of the financial sector is at its healthiest.

Thus, acquisitions by private ARCs are estimated to be lower than the recoveries expected during the year, mainly owing to the twin effect of limited large stressed opportunities in the corporate segment and faster churn in retail loans. That said, the National Asset Reconstruction Company Ltd (NARCL) will continue to acquire old-vintage stuck assets.

Additionally, recent draft guidelines on securitisation of stressed assets, allowing lenders to pool such assets and repackage them for different risk classes of investors, if implemented, may bring more competition to ARCs, leading to further slowdown in new acquisitions in the near-to-medium term.

Chart 2: Multi-year low GNPA's impacting new SR issuances for the ARC sector



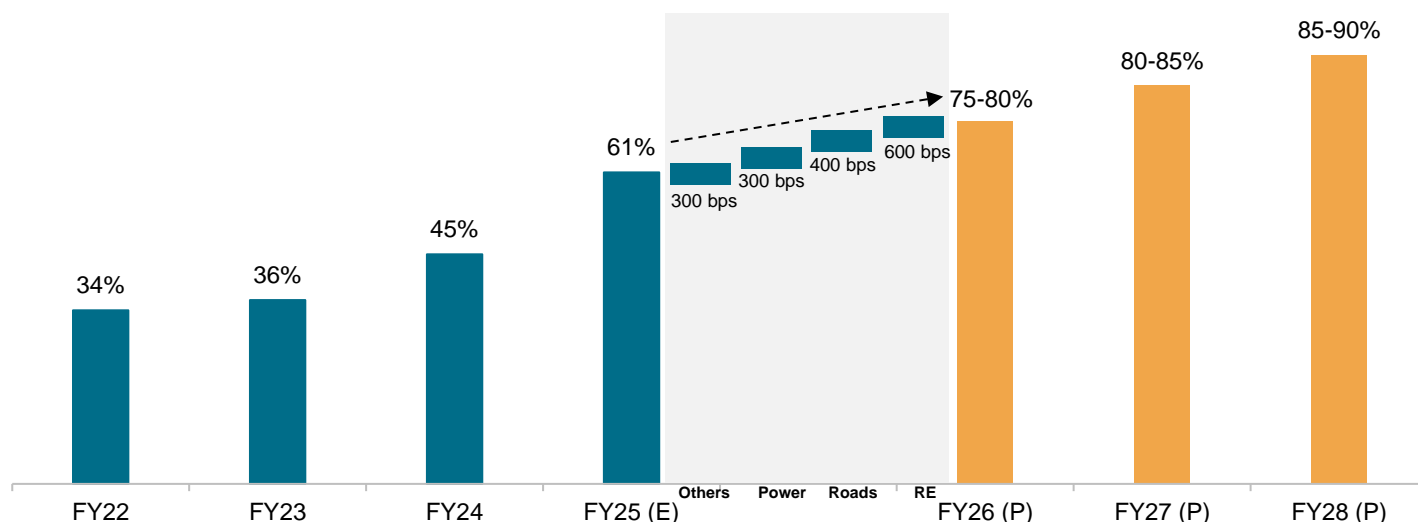
Source: Association of ARCs in India and RBI

Note: Includes only private ARCs

Corporate pool recovery to improve on infrastructure buildout

The real estate, power and roads sectors have seen tremendous revenue growth¹ in the past three fiscals. With increase in demand, steady credit outlook and government initiatives, these sectors are likely to yield better recoveries for ARCs in fiscal 2026 as well.

Chart 3: Trend in cumulative recovery rate



Source: Crisil Ratings
E: Estimated; P: Projected

The convergence of favourable demand factors in three key sectors is expected to sustainably support recoveries for ARCs over the medium term. One, the residential real estate sector has become more attractive due to rising property prices and declining inventories in major cities. Two, the thermal power sector is benefiting from growing demand, adequate coal supply and timely payments from distribution companies. Three, the roads sector is aided by inflation-linked toll increases and prompt annuity payments from the National Highways Authority of India (NHAI).

The alignment of these sectoral drivers is anticipated to continue driving debt restructuring and, in turn, bolster recoveries for ARCs in the medium term.

Restructuring in anticipation of reconstruction a dominant strategy across asset sizes

The 'R' in ARCs stands for **reconstruction**. ARCs play a crucial role in the reconstruction of stressed assets by way of restructuring. Post the Covid-19 pandemic, aided by improving economic activity, ARCs continued to restructure debt across large as well as small assets². This has enabled stressed companies to bring their debt to sustainable levels and step up their repayment plan.

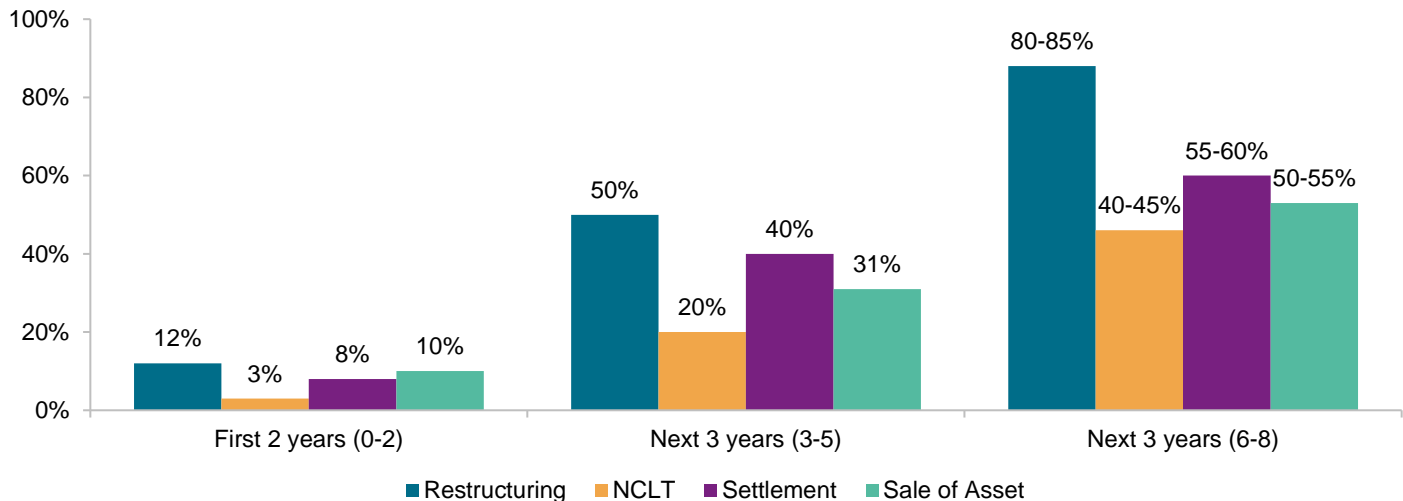
¹ Residential real estate in India saw an estimated 14% growth on a high base in fiscal 2024 (Source: Crisil Ratings).

Base load power demand in India has maintained healthy momentum in the last three fiscals, increasing by ~11% on-year (Source: Crisil Intelligence)
Overall road sector capex, comprising national highways, state highways and rural roads, is estimated to have grown at a compound annual rate of ~14% between fiscals 2018 and 2023 (Source: Crisil Intelligence).

² Asset classification is based on the debt acquired. If the total debt acquired is more than Rs 100 crore, then it is classified as a large asset.

Among all available resolution strategies, it is evident that restructuring has been the prominent one driving maximum recoveries for ARCs over the trust life of eight years. By restructuring debt, ARCs may allow companies to retain cash flow within the business to improve operations initially. With more of the cash flow being used in the business, ARCs are leveraging the revival of the company and providing investors a healthy exit from the asset, where up to 85% of the debt is recovered over a span of eight years of the trust life. That said, as the size of the asset moderates, dependence on settlement and asset sale increases.

Chart 4: Recovery as a percentage of debt acquired via resolutions across the 8-year trust life



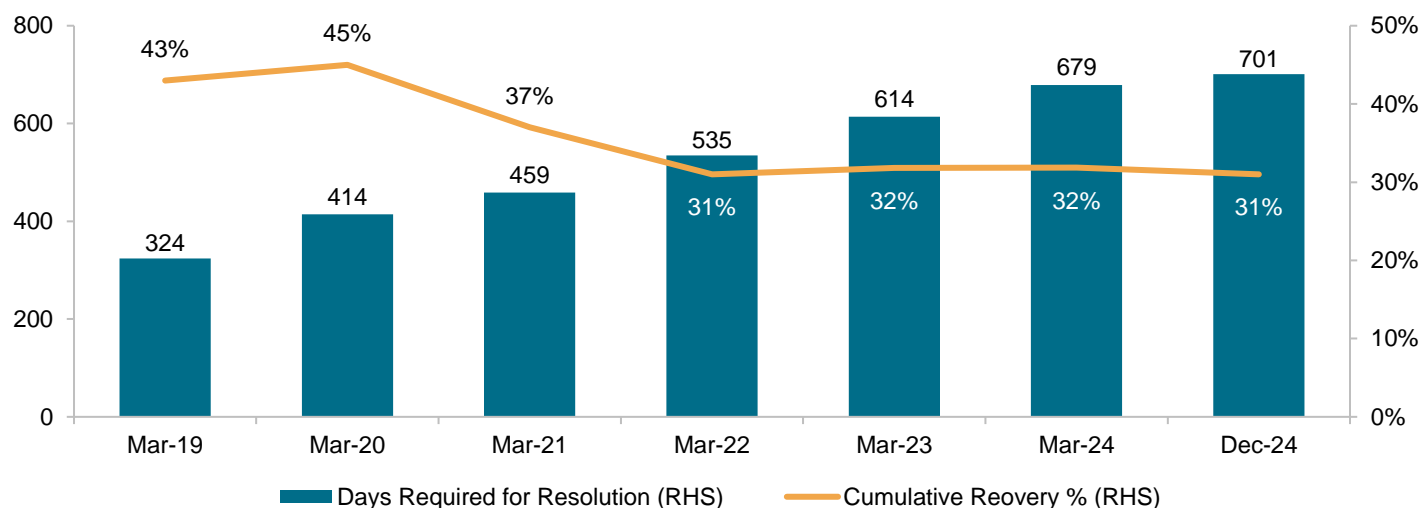
Source: Crisil Ratings

That said, alternative recovery mechanisms such as settlement or asset sale tend to result in significantly lower recovery rates. The improving performance of stressed assets, combined with the deterrent effect of the IBC, is likely to enable ARCs to increasingly adopt restructuring as a preferred resolution strategy, even for moderately sized operating assets.

IBC - a lesser popular resolution strategy for ARCs

A key benefit of the IBC lies in its ability to rebalance the power equation, providing creditors and stakeholders with the necessary tools to unlock maximum value from stressed but viable assets. The fundamental change to 'creditor in control' from 'debtor in control' has improved the credit culture in India, leading to recoveries of Rs 3.58 lakh crore against admitted claims of Rs 11.39 lakh crore as of December 2024.

While the average recovery rate under IBC has been higher than other legal mechanisms, such as Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI), Debt Recovery Tribunal (DRT) and Lok Adalat, moderating recovery rates and stretched timelines have been major disappointments for lenders. Cumulative recovery rates moderated to ~31% as of December 2024, with increase in resolution time to 701 days.



Resolution timelines: Average time (in days) taken for cases resolved till the respective fiscal, that is, the time taken by a case to reach the resolution plan approval stage from the date of initiation of insolvency resolution process.

Cumulative recovery % till the respective fiscal year

Source: Insolvency and Bankruptcy Board of India

A primary factor for this trend may be the overload of cases being handled by the limited number of National Company Law Tribunal (NCLT) benches, which may be impeding the efficient disposal of cases. Despite the progress made in terms of the number of resolutions, lingering issues of recovery rates and timelines underscore the need for continued efforts to optimise the insolvency resolution process.

Next fiscal, out of an expected recovery of ~Rs 12,000 crore for SRs rated by Crisil Ratings, recovery through IBC will account for only ~20%. Although IBC is not the dominant resolution strategy for ARCs, it certainly carries the deterrence effect, prompting borrowers to settle their debts.

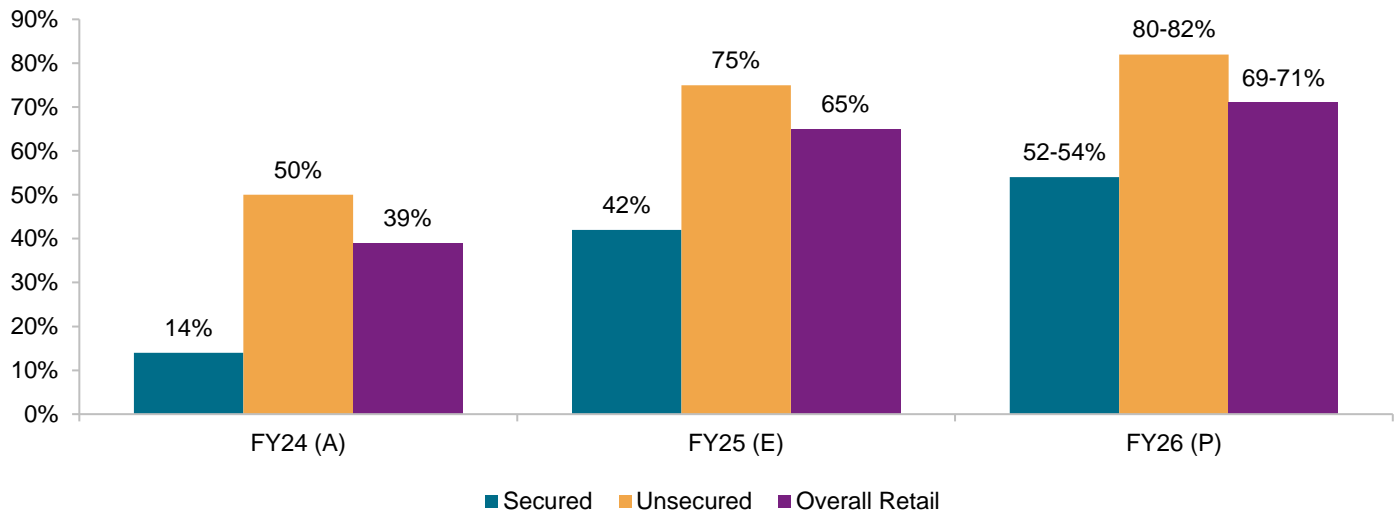
The recent Supreme Court judgement overturning the resolution plan approved in 2019 of JSW Steel for Bhushan Power and Steel Ltd may prove to be an impediment in Indian insolvency resolution. While there is status quo on the decision, the ongoing uncertainties may shake the risk appetite of investors for large assets. Concurrently, increased burden on lenders, resolution professionals and other stakeholders to ensure procedural compliance with IBC may lead to further delays in resolution. However, the deterrence effect of IBC will continue to benefit the credit ecosystem in India.

Redemption rates for retail SRs set to rise

After healthy growth in AUM for ARCs in fiscal 2024, the retail segment saw a moderation in fiscal 2025 owing to the decadal low non-performing assets (NPAs) in the banking sector. As the sector adapted to this new landscape of low NPAs, it became imperative to address the emerging challenges and opportunities in the stressed but fragmented retail asset pools. ARCs shifted from corporate to retail assets, given the limited supply of corporate stressed assets and higher opportunity in retail stressed assets.

An analysis by Crisil Ratings shows that the cumulative redemption rate for SRs issued for stressed retail assets is expected to improve by ~600 bps to 69-71% in fiscal 2026.

Chart 5: Cumulative redemption rate for retail asset classes



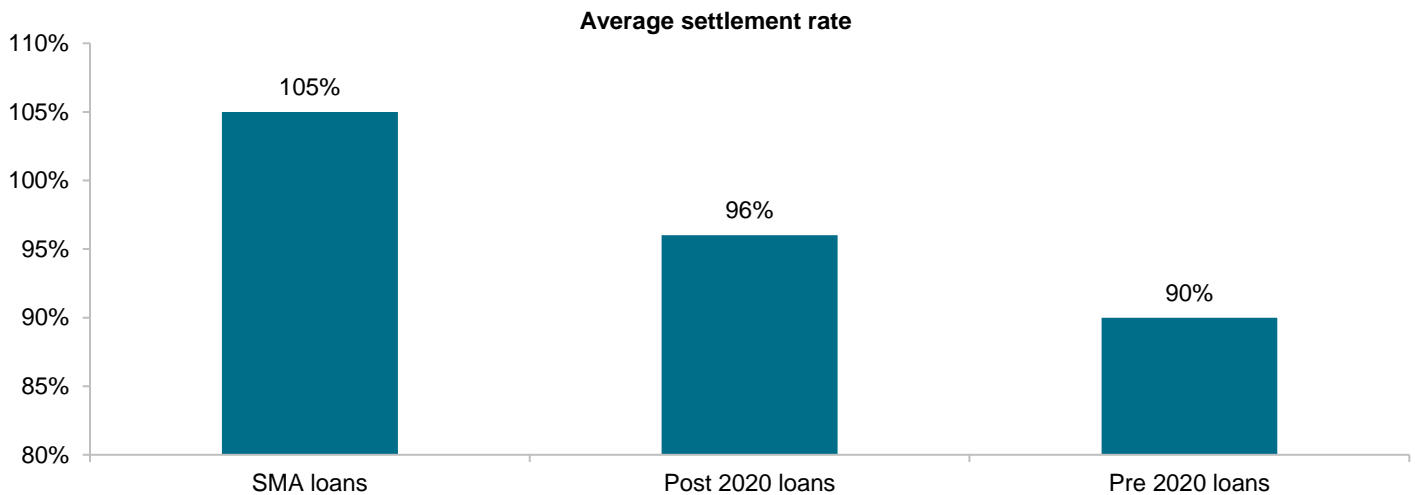
Source: Crisil Ratings analysis of ~46 trusts

Cumulative redemption rate % = The cumulative net recoveries as a % of cumulative SRs issued

This uptick will be driven by the following factors:

- 1. Healthy recoveries from low-vintage accounts:** Recent acquisitions have a higher proportion of low-vintage accounts, which are showing signs of faster recovery and are expected to yield better recovery rates.

Chart 6: Average settlement rates across NPA vintages (as of March 2024)



Source: Crisil Ratings analysis of ~46 trusts

Average settlement rate % = Gross recoveries / outstanding principal amount

- 2. Improved settlement rates across asset classes:** Both secured and unsecured asset classes are witnessing healthy settlement rates, contributing to the overall improvement in redemption rates. Our analysis of secured SR portfolios reveals that healthy underlying asset coverage is a key driver of settlement rates for home loans and loans against property (LAP). For the portfolio studied, borrowers with ~2 times asset coverage settled above the principal outstanding and many others settled at ~90% of the principal outstanding.

In unsecured loans, the desire of borrowers to maintain healthy credit profile is a key catalyst for debt settlement. Our analysis of 5 lakh accounts reveals that working-age borrowers are 55% more likely to settle debts, with a cumulative closure rate of 7.3%, compared with 4.7% for other borrowers. This disparity highlights the growing importance of credit score awareness as borrowers prioritise debt repayment to safeguard their financial reputation and future credit access.

3. Changes to ARC settlement guidelines aim to expedite recovery actions: The RBI introduced an Independent Advisory Committee (IAC) to oversee the settlement of dues with borrowers. However, the initial framework required IAC approval for every settlement proposal, which led to increased operational complexity and slower recovery in fiscal 2025.

Therefore, the RBI recently allowed ARCs to establish Board-approved policies for settling borrower dues. This revision enables greater flexibility, permitting IACs to focus on large borrowers, **while settlements for small-ticket loans (less than Rs 1 crore) can be decided independently**. This change is anticipated to expedite the approval process, lower costs and enhance recovery rates for small-ticket loans, which account for 40-50% of rated retail SRs.

Increased compliance norms to fortify the ARC industry

While ARCs are building the infrastructure to service retail assets, the regulator has introduced key process changes in Know-Your-Customer (KYC) norms and registration with all credit information companies (CICs). The new regulations require ARCs to obtain and update KYC details, perform fresh checks and register with all CICs to submit data, aligning their processes with those of banks and non-banking financial companies (NBFCs).

The implementation of these norms will enhance transparency and accountability in the asset reconstruction industry. While these measures introduce operational complexities and compliance costs, they will ultimately facilitate better credit risk assessment.

Meanwhile, lowered funding requirement for acquisition of debt brings in relief for ARCs, but the higher net owned fund (NOF) requirement has become an impediment for smaller ARCs. Effects are visible, with three of the 29 ARCs having surrendered their licenses since the issue of the circular. While two ARCs failed to meet the Rs 200 crore threshold as of March 2024, majority of the ARCs achieved the said threshold in order to continue fresh acquisitions.

But the next milestone of Rs 300 crore seems to be an uphill task for 7-8 ARCs, for whom NOF still lies under Rs 250 crore. If no extensions are granted, some of these ARCs may not be able to add to their AUM. This may trigger consolidation, as small ARCs may find it difficult to raise capital to fulfil this criteria. Thus, we foresee big ARCs grabbing larger morsels of the stressed assets pie.

Conclusion

The ARC industry is poised for higher recovery rates, driven by improving performance of stressed assets, particularly in key infrastructure sectors. The cumulative recovery rate for SRs is expected to rise to 75-80% by next fiscal, driven by healthy demand growth, government initiatives and improved market conditions. Additionally, the increasing share of retail and low-vintage assets, as well as lower growth in new acquisitions, will contribute to the improvement in recovery rates.

The regulatory environment is supportive, with recent changes allowing ARCs to frame board-approved policies for settling small borrowers. The implementation of KYC norms and registration with CICs will enhance transparency and accountability, facilitating better credit risk assessment and risk return balance.

Overall, the improved recovery rates in the asset reconstruction industry will be accompanied by greater focus on compliance.

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