



IN THE NATIONAL COMPANY LAW TRIBUNAL MUMBAI BENCH-VI
IA No.548/2024 & IA No.3607/2022 IN CP (IB) No.1158/MB/2022

[Under Section 60(5) of the Insolvency and Bankruptcy Code, 2016 read with Rule 11 of the National Company Law Tribunal Rules, 2016]

CENTRAL DEPARTMENTAL STORES PRIVATE LIMITED

.....Applicant/Corporate Debtor

Vs.

CENTRAL BANK OF INDIA

....Respondent/Financial Creditor

IN THE MATTER OF:

Central Bank of India

[PAN NO.: AAACC2498P]

Corporate Finance Branch

1st Floor, MMO Building, M.G.Road,

Fort, Mumbai - 400001.

...Financial Creditor

Vs.

CENTRAL DEPARTMENTAL STORES PRIVATE LIMITED

[CIN:U51909MH2006PTC164209]

2nd Floor,Sobo Central Mall

Pt. Madan Mohan Malviya Road, Haji Ali

Tardeo, Mumbai - 400034.

...Corporate Debtor

Pronounced:05.09.2024

CORAM:

HON'BLE SHRI K. R. SAJI KUMAR, MEMBER (JUDICIAL)

HON'BLE SHRI SANJIV DUTT, MEMBER (TECHNICAL)

Appearances: Hybrid

Applicant : Adv. Shyam Kapadia a/w. Petrushka Dasgupta Adv. Krishna Baruah, Adv. Ankita Yadav i/b link Legal

Respondent : Adv. Amir Arsiwala a/w. Adv. Abdullah Qureshi a/w Adv. Shradha Patil i/b India Law LLP

ORDER

[PER: SANJIV DUTT, MEMBER (TECHNICAL)]

1. BACKGROUND

- 1.1 An Interlocutory Application (IA) No.3607/2022 was filed by M/s Central Departmental Stores Private Limited, (hereinafter referred to as “the Applicant/Corporate Debtor”) on 25.11.2022 under Section 60(5) of the Insolvency and Bankruptcy Code, 2016 (hereinafter referred to as “the Code”) read with Rule 11 of the National Company Law Tribunal Rules, 2016 (NCLT Rules) for challenging the maintainability of the Main Application bearing CP(IB) No.1158/MB/2022 filed under Section 7 of the Code read with Rule 4 of Application to Adjudicating Authority Rules (hereinafter referred to as “the AAA Rules”) by the Central Bank of India (hereinafter referred to as Respondent/ Financial Creditor) on 22.06.2022 mainly on the grounds that it is barred under the provisions of Section 10A of the Code and that there are parallel proceedings initiated by the Respondent/Financial Creditor for enforcement of the same debt.
- 1.2 Another IA No.548/2024 was filed on 30.01.2024 praying for keeping the Main Application No.1158 of 2022 along with CP (IB) No.1113 of 2022 adjourned by a period of four weeks so as to enable the parties to conclude the settlement talks between the Applicant/Corporate Debtor and the Respondent/Financial Creditor. Alternatively, it was prayed that the Tribunal may not hear the matters finally



together with Company Petition Nos. being CP (IB) No.1111 of 2022 and CP (IB) No.865 of 2022.

- 1.3 The Main Application was filed by Respondent/Financial Creditor against Applicant/Corporate Debtor which is the Corporate Guarantor of Syntex Trading and Agency Private Limited (hereinafter referred to as "the Principal Borrower"). The alleged amount of financial debt claimed to be in default is Rs.420,13,90,040.33/- (Four Hundred and Twenty Crore Thirteen Lakhs Ninety Thousand and Forty Rupees and Thirty Three paise) as on 29.05.2022 along with interest and other charges. The date of default is stated in Part-IV of the Application as 31.03.2022 under One-Time Restructuring (hereinafter referred to as "OTR").
- 1.4 The Respondent/Financial Creditor granted Term Loans of Rs.125 crore and Rs.187.50 crore to Anjana Retail Infra Pvt. Ltd (ARIPL) and RJ Texcot Private Limited (RJTPL) respectively through Sanction Letters dated 24.03.2015 and 05.12.2016. Pursuant thereto, the Respondent/Financial Creditor entered into Term Loan Agreements dated 27.03.2015 and 14.12.2016 with ARIPL and RJTPL respectively.
- 1.5 Subsequently, both ARIPL and RJTPL were merged with the Principal Borrower pursuant to an order dated 02.08.2018 passed by this Tribunal, Mumbai Bench. Thereafter, the Respondent's Managing Committee approved the amalgamation of ARIPL and RJTPL with the Principal Borrower and sanctioned consolidated limits for the Principal Borrower through letter dated 23.09.2019. The Respondent



sanctioned a fresh term loan of Rs.155 Crore to the Principal Borrower *vide* Sanction Letter dated 16.12.2019 and entered into a Term Loan Agreement dated 23.12.2019 with the Principal Borrower. These facilities were guaranteed by the Applicant/Corporate Debtor through a Deed of Guarantee dated 23.12.2019.

- 1.6 Thereafter, default was committed by the Principal Borrower on 30.09.2020 and it requested for an OTR under the Resolution Framework for Covid-19 Related Stress announced by the Reserve Bank of India *vide* its Circular dated 06.08.2020 (hereinafter referred to as “the RBI Covid Circular”). The OTR was executed on 21.05.2021 pursuant to which the Respondent/Financial Creditor entered into a Restructuring Agreement dated 21.05.2021 with the Principal Borrower. Simultaneously, the Corporate Guarantor executed a Deed of Guarantee dated 21.05.2021. Further, an Agreement for Pledge of Shares dated 21.05.2021 was executed by the Applicant/Corporate Debtor and the Principal Borrower in favour of the Financial Creditor pledging certain shares of Future Enterprises Limited.
- 1.7 However, the Principal Borrower failed to fulfill its obligation under the OTR and defaulted in repayment of principal and interest due on 31.03.2022. Consequently, the Respondent issued notice dated 04.05.2022 calling upon the Principal Borrower to clear the outstanding dues, but no payments were made. Thereafter, Demand Notice dated 06.06.2022 was sent by the Respondent/Financial Creditor to the two Corporate Guarantors including the Applicant/Corporate Debtor but again no payments were made. In these circumstances, the Respondent/Financial Creditor filed the Main Application under Section 7 of the Code seeking initiation



of Corporate Insolvency Resolution Process (hereinafter referred to as "CIRP") in respect of the Applicant/Corporate Debtor.

2. AVERMENTS OF APPLICANT/CORPORATE DEBTOR IN IA 3607 OF 2022

- 2.1 The Applicant/Corporate Debtor has filed the IA challenging the maintainability and seeking dismissal of the Main Application, *inter alia*, on the ground that the Respondent/Financial Creditor has suppressed material facts while filing the Main Application. The Financial Creditor has not disclosed the fact that as many as five different proceedings have been initiated by it against the Principal Borrower, two Corporate Guarantors and two Personal Guarantors under the Code for enforcement of the same debt. A party which suppresses material facts from the Court is not entitled to any relief and, therefore, on this ground alone, the Main Application filed by the Respondent/ Financial Creditor ought to be dismissed. The Respondent cannot be permitted to pursue the Main Application since it has also filed simultaneous applications against the Applicant/Corporate Debtor/ Corporate Guarantor and another Corporate Guarantor under Section 7 as well as the Personal Guarantors under Section 95 of the Code. The Main Application under Section 7 is not maintainable, if the proceedings under the Code are subsisting against the Principal Borrower.
- 2.2 Secondly, it is stated that the debt is fully secured by outsized securities and the Principal Borrower is capable of repaying the debt upon monetization of assets already encumbered with the Financial Creditor. In fact, without prejudice, it had



submitted an OTS (One-Time Settlement) to the Respondent/ Financial Creditor on 23.11.2022.

2.3 Thirdly, pursuant to the RBI Covid Circular, the Respondent/ Financial Creditor had sanctioned the OTR Plan *vide* its letter dated 21.05.2021. A Restructuring Agreement with the Principal Borrower was entered into on 21.05.2021 and a Deed of Guarantee dated 21.05.2021 came to be executed with the Applicant/Corporate Debtor/Corporate Guarantor. Since the Applicant failed to comply with the OTR Plan and to repay the principal and interest fallen due on 31.03.2022, the concessions pertaining to the OTR scheme were withdrawn. In other words, the dues were reversed to the amount due prior to the sanction of OTR and the date of default also reverted as per the pre-OTR period i.e., 30.09.2020. Prior to the filing of the Main Application, the Respondent/Financial Creditor *vide* its notice dated 04.05.2022 and 06.06.2022 had sought repayment of loans from the Principal Borrower and the Applicant/Corporate Debtor/Corporate Guarantor respectively. Even in that notice, the Respondent/Financial Creditor stated that the Principal Borrower's account had been classified as NPA under OTR on 30.04.2022 (on account of continuous default for 30 days of the cure period from the date of the first default) and dues were calculated with effect from 29.12.2020 when the account actually slipped to NPA.

2.4 Fourthly, the Applicant/Corporate Debtor executed the Deed of Guarantee dated 23.09.2019 and 21.05.2021 respectively in favour of the Respondent/Financial Creditor only by means of securities and not as principal obligor. The Applicant/Corporate Debtor also executed a Pledge Agreement dated 23.09.2019



whereby the Applicant/Corporate Debtor along with Future Capital investment Private Limited and Future Corporate Resources Private Limited pledged the equity shares of Future Retail Limited. It is submitted that the liability of the Applicant/ Corporate Debtor is limited to the shares pledged having value of Rs.15.34 crore as per the valuation report submitted by the Respondent/Financial Creditor itself. Further, pursuant to sanction of the OTR, the Applicant/Corporate Debtor along with Future Capital Investment Private Limited and Future Corporate Resources Private Limited pledged 1,30,00,000 shares of Future Enterprises Limited and 3,10,50,000 shares of Future Market Networks Limited.

- 2.5 Fifthly, the claim of the Respondent is hit by Section 10A of the Code. The date of default as per the Main Application is 30.09.2020, which falls during the prohibited period contemplated by Section 10A of the Code i.e., from 25.03.2020 to 24.03.2021. It is submitted that the transactions shown are all of the period covered by Section 10A of the Code and the claim includes penal interest from the prohibited period. The Main Application is, therefore, filed for default arising during the said period. In view of the admitted pleadings of the Respondent/Financial Creditor itself, the first date of default in the Applicant's case was on 30.09.2020, which is within the prohibited period in terms of Section 10A. It is settled position of law that admission made in the pleadings by a party is the best proof of the facts admitted, as held by the Hon'ble Supreme Court in ***Mohammed Abdul Wahid Vs. Nilofer & Another (2024) 2 SCC 14, Nagindas Ramdas Vs. Dalpatram Iccharam & ors. (1974) 1 SCC 242 and Union of India Vs. Ibrahim Uddin & another (2012) 8 SCC 148.*** According to the Applicant/Corporate Guarantor, the



Respondent/ Financial Creditor itself has admitted that the first default in repayment of the debt occurred on 30.09.2020 and hence the default amount fell under Section 10A period.

- 2.6 The Respondent/ Financial Creditor cleverly drafted the Main Application, by disingenuously stating date of default as 31.03.2022 to escape the restrictions imposed by Section 10A of the Code. Placing reliance on the judgment of Hon'ble Supreme Court in ***Ramesh Kymal Vs. Siemens Gamesa Renewable Power Pvt. Ltd. (2021) 3 SCC 234***, it is submitted that for a default occurring in the prohibited period covered by Section 10A, an application to initiate CIRP under the provisions of the Code could never be filed. The Respondent/ Financial Creditor can avail other remedies as may be available under law but no proceedings will lie under the Code for default which has occurred in the said prohibited period. Since the Respondent/ Financial Creditor itself claims that a default occurred on 30.09.2020, the present Application is strictly barred under Section 10A of the Code. It is submitted that as per the terms of the Deed of Guarantee dated 23.12.2019 executed by the Applicant for the facility sanctioned to the Principal Borrower, the liability of the Guarantor is co-extensive. Therefore, in case of default by the Principal Borrower, the Guarantor will be liable from the same date. Consequently, in view of the Respondent's case that the Principal Borrower defaulted on 30.09.2020, the Applicant's date of default would also be 30.09.2020 which is covered under Section 10A.
- 2.7 It is further submitted that the Respondent/Financial Creditor is abusing the provisions of the Code as a tool of recovery by filing simultaneous applications



against the Principal Borrower and the Guarantors. This would effectively result in multiple Corporate Persons/ Personal Guarantors being forced into insolvency in respect of the same debt.

- 2.8 The Ld. Sr. Counsel for the Applicant/Corporate Debtor relied on Clauses 22 and 48 of the RBI Covid Circular and argued that the Respondent/Financial Creditor cannot shift the date of default under the garb of OTR/Restructuring Agreement, especially when the RBI Covid Circular itself provides that in case of default under the OTR, it would be as if the said OTR/Restructuring Agreement was never entered into. It is contended that the execution of OTR/Restructuring Agreement does not in any manner novate the earlier loan agreements and rather denies the Applicant/Corporate Debtor its rights under the provisions of Section 10A of the Code.
- 2.9 The Applicant/Corporate Debtor has referred to the judgments of Hon'ble Supreme Court in ***Rajasthan State Industrial Development and Investment Corporation and Another Vs. Diamond & Gem Development Corporation Limited and Another [(2013) 5 SCC 470]***, ***Hindustan Cooperative Housing Building Society Limited Vs. Registrar, Co-operative Societies and another [(2009) 14 SCC 302]*** and ***J.K. Cotton Spinning and Weaving Mills Vs. Union of India [1987 (Supp) SCC 350]*** wherein it has been held that the words "as if" create a legal fiction and such legal fiction should be deemed to be in existence only for the limited purpose for which it was created. In view of the above, it is contended that the Resolution Plan/Restructuring Agreement is deemed to be in existence only for the limited purpose until there is a breach/default under such Restructuring



Agreement, in which case it is to be deemed that such Restructuring Agreement was never in existence.

2.10 It is contended that the said RBI Covid Circular cannot override the effect of Section 10A of the Code by implying that entering into a Restructuring Agreement under the said RBI Covid Circular will shift the date of default. It is argued that the date of default as mentioned in Part-IV of the Application as on 31.03.2022 (Under OTR) is only to circumvent the provisions of Section 10A of the Code. The principle whether re-structuring of a loan is tantamount to novation of original contract and whether non-fulfilment of the conditions or pre-conditions of the restructuring relegates the date of default back to the original default date was also considered by NCLT, Kolkata Bench in the matter of **REC Limited Vs. Hiranmaye Energy Limited [C.P. (IB) 138/KB/2021]** and in para 16, it was held that even if there is a default under a restructuring, if there is a default in the previous date in repayment, the initial date of default will be considered as default. Referring to the judgments of Hon'ble Supreme Court in **Hyder Consulting (UK) Ltd. Vs. Governor, State of Orissa [(2015) 2 SCC 189]** and **State of U.P. Vs. Synthetics & chemicals Ltd. [(1991) 4 SCC 139]**, it is submitted that the judgment of Hon'ble NCLAT in the connected matter of **Pradeep Madhukar More, Suspended Director of Syntex Trading & Agency Pvt. Ltd. Vs. Central Bank of India [Company Appeal (AT) (Ins) No.837 of 2023]** is *per incuriam* as the same does not consider and/or is silent on Clause 22 of the said RBI Circular and, therefore, the same will not be binding on this Tribunal.



3. CONTENTIONS OF RESPONDENT/FINANCIAL CREDITOR

- 3.1 In its Affidavit-in-Reply dated 01.07.2023, the Respondent submits that the law permits it, being a Creditor, to pursue simultaneous proceedings against the Principal Borrower and its Guarantors. Section 128 of the Indian Contract Act, 1872, clearly stipulates that liability of Guarantor shall be co-extensive with that of the Principal Borrower. According to Clause 1 of the Deed of Guarantee dated 21.05.2021, executed between the Applicant and the Respondent, the Applicant's liability is defined as that of a principal debtor. At the option of the Respondent/Financial Creditor, the Guarantor may be treated as primarily liable for the debt of the Principal Borrower, thereby making the Applicant's liability co-extensive with that of the Principal Borrower. The Hon'ble Supreme Court in ***Laxmi Pat Surana Vs. Union Bank of India & Anr. (2021) 8 SCC 481*** has held that when the principal borrower has committed a default, it would enable the creditor to proceed against both the principal borrower and the guarantor simultaneously since the obligation of the guarantor is co-extensive and co-terminus with that of the principal borrower to defray the debt as prescribed under Section 128 of the Indian Contract Act, 1872. In its Written Submissions, the Respondent/ Financial Creditor has placed reliance on the judgments of the Hon'ble NCLAT in ***State Bank of India Vs. Athena Energy Ventures Pvt. Ltd. [CA (AT)(Ins.) No.633 of 2020]***, ***Emerald Realtors Pvt. Ltd. Vs. Suraksha Asset Reconstruction Ltd. [CA (AT)(Ins.) No.394 of 2021]*** and ***Naresh Kumar Aggarwal Vs. CFM Asset Reconstruction Pvt. Ltd. [CA (AT)(Ins.) No.470 of***



2023], wherein it has categorically been held that CIRP can be initiated simultaneously against the principal borrowers and corporate guarantors. Hence, the Main Application is very much maintainable under the Code.

- 3.2 The Applicant's plea that the claim of the Respondent/Financial Creditor is barred by Section 10A of the Code is misplaced, because liability of the Applicant/Corporate Debtor arises under the Deed of Guarantee dated 21.05.2021, which was executed well after the period of prohibition under Section 10A of the Code had ended. It has been held by the Hon'ble NCLAT in ***Pooja Ramesh Singh Vs. State Bank of India & Anr.*** [Company Appeal (AT)(Ins.) No.329 of 2023] and ***IDBI Trusteeship Services Ltd. Vs. Direct Media Distribution Ventures Pvt. Ltd.*** [Company Appeal (AT)(Ins) No.850 of 2023] that in case of the guarantor, it is the date of invocation of guarantee which is the "date of default" for the purposes of the Code. Further, the Respondent asserts that Section 10A does not apply to the Main Application, as the date of default is determined to be 31.03.2022 which represents the date on which the terms of the OTR were breached. The present default occurred under the restructuring done pursuant to the OTR Proposal of the Principal Borrower. On 21.05.2021, the Respondent/ Financial Creditor and the Principal Borrower along with Bank of Baroda entered into a Restructuring Agreement. This resulted in the novation of the transaction/ agreement between the parties. The Corporate Guarantor executed a fresh Deed of Guarantee on 21.05.2021, agreeing to act as surety and to be liable for payment under the OTR by the Principal Borrower. The Principal Borrower failed to pay the first instalment due and payable under the OTR on 31.03.2022, which constituted a "default" on



its part under the provisions of the Code. The Financial Creditor sent letter dated 06.06.2022 to the Applicant/Corporate Debtor invoking the guarantee provided by it under the Deed of Guarantee dated 21.05.2021.

3.3 In its Written Submissions, the Respondent/ Financial Creditor has referred to the judgment of Hon'ble NCLAT in **Pradeep Madhukar More** (*supra*) which was a case filed by the same Financial Creditor against another company of the Future Group. The facts of that case are identical as it relates to the facility granted to the group company of the Corporate Debtor. It was held that the NPA date reverting to 29.12.2020 as per Clause 48 of the RBI Covid Circular would not be relevant for identifying the "date of default" for the purposes of the Code. Thus, the date of the account of the principal borrower becoming NPA is irrelevant for the purposes of determining the "date of default" for an application under Section 7 of the Code. The Ld. Counsel for the Respondent/Financial Creditor submitted that the Corporate Guarantor's argument that Clause 48 of the said RBI Circular also results in the "date of default" reversing and reverting to the NPA date was held to be unsustainable. It was held that the petition filed by the same financial creditor against the principal borrower based on same OTR and the same facility was not barred by Section 10A of the Code.

3.4 As regards the contention that the debt owed by the Principal Borrower is fully secured by outsized securities executed in favour of the Respondent/ Financial Creditor, it is submitted that the primary security with the Respondent is a first charge *vide* Deed of Hypothecation dated 21.05.2021 covering all the fixed assets and all the receivables of the Principal Borrower and the same is insufficient to



satisfy the debt of the Principal Borrower. The Principal Borrower pledged shares of the Future Market Network limited and Future Enterprises Limited as collateral security with the Respondent/Financial Creditor. The value of the said collateral security has considerably reduced from Rs.49.14 crores to Rs.19.36 crores as on 03.05.2023 and is further set to diminish on account of substantial financial crises faced by Future Group. Therefore, the primary and collateral security may prove to be insufficient to meet the dues owed to the Respondent/Financial Creditor.

3.5 It is submitted that the Principal Borrower, M/s. Syntex Trading & Agency Private Limited sent letter dated 23.11.2022 to the Respondent undertaking to settle the outstanding dues by monetizing the assets of the Principal Borrower. As on date of filing this Reply, neither the Principal Borrower nor any of its guarantors, including the Applicant, have repaid even a fraction of the outstanding dues. In these circumstances, it is submitted that such promises to pay the outstanding debt are mere delaying tactics employed by the Applicant/Corporate Guarantor to derail the time-bound process under the Code. It is pointed out that all the OTS proposals given by the Principal Borrower were proved to be all promises. No provision under the Code and the Rules and Regulations made thereunder prohibits a creditor from initiating insolvency proceedings on the sole ground that it is a secured creditor. By virtue of being a secured creditor, the law merely grants the Respondent/Financial Creditor an option of enforcing the securities executed in the Respondent's favour. However, there is no legal compulsion that a secured creditor must first enforce the securities in its favour before proceeding with other legal remedies.



- 3.6 Further, there is neither any provision under the Code nor in the format of application under Form-1 of the AAA Rules, requiring the Respondent/Financial Creditor to disclose list of all proceedings initiated against the Principal Borrower or other guarantors for the same debt. Similarly, the OTS Proposals were given by the Applicant/Corporate Debtor after the Main Application had already been filed, and, accordingly, the same could not be brought to the notice of the Tribunal. Therefore, the Applicant's allegation that the Respondent/Financial Creditor suppressed material facts by not informing the Tribunal about the other four proceedings is incorrect.
- 3.7 The Applicant's argument on applicability of Section 10A is misplaced because its liability arises from the Deed of Guarantee dated 21.05.2021, executed well after the period of protection under Section 10A of the Code had ended. Further, Section 10A does not apply to the present petition, as the default date is determined to be 31.03.2022, the date on which the terms of the OTR were breached. The Respondent/Financial Creditor submits that it has taken the NPA date as 29.12.2020, instead of 30.04.2022, in compliance with Clause 48 of the RBI Covid Circular which deals with the procedure to be followed, if there is default under the OTR. However, the date of default for the purposes of the Main Application will remain 31.03.2022, thereby rendering Section 10A of the Code inapplicable to the Main Application.
- 3.8 It is submitted that all the One Time Settlement (OTS) proposals submitted by the Applicant were proven to be false promises and were submitted to the bank after the Section 7 application was filed. The Principal Borrower and its Guarantors



including the Applicant are part of the Future Group of Companies that are currently facing severe financial stress. The Respondent in its commercial wisdom has only enforced its rights under the Code and done nothing against the legislative intent of the Code.

4. ANALYSIS AND FINDINGS

- 4.1 At the outset, it is noted that the Hon'ble Bombay High Court *vide* common order dated 15.02.2024 passed in Writ Petition (L) No.25350 of 2023 and Writ Petition (L) No.27363 of 2023 filed by the Corporate Guarantors viz., Ojas Tradelease and Mall Management Private Limited and Future Corporate Resources Private Limited directed this Tribunal to adjudicate, at the first instance, the IAs filed by the above parties challenging the issue as to maintainability of the Main Application, *inter alia*, on the ground of Section 10A of the Code. The Applicant/ Corporate Debtor submits that since the same issue is also the subject matter of IA No.3607 of 2022, it may be decided as a preliminary issue. Accordingly, we heard the learned Counsel for the Applicant and the Respondent and also carefully perused the documents and materials available on record including written submissions by both parties.
- 4.2 First of all, the law is already settled that parallel proceedings under Section 7 of the Code can be initiated by a financial creditor against the Principal Borrower as well as the guarantors. Liability of the surety or guarantor is co-extensive with that of the principal debtor under Section 128 of the Indian Contract Act, 1872 and that a creditor is not bound to first exhaust remedy against the principal debtor before



initiating proceedings against the surety. In other words, both the principal debtor and the surety are liable at the same time to the creditors. The very object of the guarantee will be defeated if the creditor is asked to postpone his remedies against the surety. The Insolvency and Bankruptcy Code (Second Amendment) Act, 2018 in Section 60(2) of the Code with retrospective effect from 06.06.2018 also expressly provides for institution of simultaneous proceedings for initiating CIRP against the Principal Borrower and the corporate/ personal guarantors. The Respondent/ Financial Creditor has invited our attention to the judgments of Hon'ble NCLAT, cited in para 3.1 above wherein relying on the judgment of the Hon'ble Supreme Court in **Laxmi Pat Surana** (supra), it has been reiterated that CIRP can be initiated simultaneously against the primary borrower and the corporate guarantors. Just because no other lender of the Principal Borrower has filed any proceedings under Section 7 of the Code by itself cannot be a valid defence against the impugned action of the Respondent/ Financial Creditor in filing the Application for initiating CIRP in respect of the Applicant/Corporate Debtor. Therefore, the plea raised by the Applicant/Corporate Debtor on this ground is legally unsustainable and is accordingly rejected.

- 4.3 Secondly, let us consider the issue whether the Respondent/ Financial Creditor being a secured creditor is precluded from filing proceedings for insolvency of the Principal Borrower or the Applicant/Corporate Debtor/ Corporate Guarantor, so long as it satisfies the pre-requisites of Section 7 of the Code. We find that there is no provision in the Code which bars a creditor from initiating insolvency proceedings against the principal borrower solely on the ground that it is a secured



creditor. There is no legal compulsion or prohibition that a secured creditor must first enforce the securities in its favour before taking recourse to the legal remedies available under the Code. Therefore, the plea taken up by the Applicant/Corporate Debtor on this count is found to be misconceived and is accordingly dismissed.

- 4.4 Thirdly, it is proposed to test the merit of the Applicant's contention whether it is necessary for the Respondent/ Financial Creditor to prove that the assets of the Principal Borrower are insufficient to satisfy the debt before proceeding against it in its capacity as the Corporate Guarantor under Section 7 of the Code. We find that such contention is supported neither by any statutory provisions under the Code nor any judicial precedents. The twin requirements of Section 7 of the Code are existence of financial debt exceeding the prescribed monetary threshold coupled with default in repayment thereof. Hence, we do not propose to deal with this as an issue as raised by the Applicant/ Corporate Debtor. No burden lies on the financial creditor in law to prove that the assets of the primary borrower are inadequate to pay off the debt in full. All that a financial creditor has to prove is that a corporate debtor owes the former a financial debt in excess of the specified threshold limit which is due and payable and that a default has occurred in repayment thereof and nothing more. In these circumstances, the aforesaid plea taken up by the Applicant/Corporate Debtor is found to be legally untenable and is accordingly dismissed.

- 4.5 As regards the contention of adequacy or otherwise of the primary as well as collateral security by way of hypothecation of all fixed assets and receivables as well as the collateral security by way of pledged shares, we find that even though



not legally required to do so under Section 7 of the Code, the Respondent/Financial Creditor has nonetheless demonstrated that both the primary and collateral security may not prove to be sufficient to meet the dues owed by the Applicant/Corporate Debtor to the Respondent/Financial Creditor. However, this is not a relevant factor in determination of existence of default in an application under Section 7 of the Code. In any case, the present proceedings before this Tribunal is for initiating corporate insolvency resolution process under the Code and not for recovery and hence, we are not inclined to deal with this point as an issue raised by the Applicant/ Corporate Debtor.

4.6 Fourthly, failure of the Principal Borrower as well as the personal/ Corporate Guarantors to offer an OTS proposal acceptable to the Respondent/Financial Creditor in the last few years indicates that the Principal Borrower and its guarantors including the present Applicant/Corporate Debtor are currently undergoing severe financial distress and are consequently unable to discharge the debts owed to the various financial creditors or even to offer mutually agreeable OTS proposals and then abide by the terms of such settlements. Even the guarantors of the Principal Borrower including the Applicant/ Corporate Debtor have also failed to repay the outstanding debt despite demand by the Respondent/Financial Creditor.

4.7 Finally, it is proposed to examine whether the claim of the Respondent/Financial Creditor in the main Application qua the Applicant/Corporate Debtor is hit by the provisions of Section 10A of the Code, as strongly pleaded and argued on behalf of the Applicant/Corporate Debtor. It is considered imperative to recapitulate the



relevant facts pertaining to this issue. It is an undisputed fact that pursuant to amalgamation of ARIPL and RJTPL with Syntex Trading and Agency Pvt. Ltd. vide order of this Tribunal dated 02.08.2018, the Respondent/ Financial Creditor after review permitted the utilization of sanctioned limits of Term Loans earlier granted to ARIPL (Rs.70.61 Crore) and RJTPL (Rs.142.97 Crore) by Syntex Trading and Agency Pvt. Ltd., the Principal Borrower vide Sanction Letter dated 23.09.2019. Thereafter, fresh Term Loan of Rs.155 Crore was availed by the Principal Borrower from the Respondent/Financial Creditor *vide* Sanction Letter dated 16.12.2019 with the Applicant/Corporate Debtor standing as surety or guarantor under a Deed of Guarantee dated 23.12.2019. The Loan was advanced for a tenure of seven years. The moratorium period of the loan was 1 year from the date of first disbursement and the Principal Borrower was required to repay the said loan by way of monthly stepped up instalments payable over the next six years.

- 4.8 However, the Principal Borrower committed a default in repayment of the loan on 30.09.2020 and its loan account was classified as NPA on 29.12.2020. The Principal Borrower approached the Respondent/Financial Creditor for OTR under the RBI Covid Circular dated 06.08.2020. The OTR proposal was approved by the Respondent/Financial Creditor *vide* Sanction Letter dated 21.05.2021. Thereafter, the Restructuring Agreement dated 21.05.2021 was executed by the Principal Borrower with its two Lenders, viz., the Respondent/ Financial Creditor and Bank of Baroda. Pursuant thereto, the Applicant/Corporate Debtor in its capacity as corporate guarantor executed a Deed of Guarantee dated 21.05.2021 i.e., after the prohibition period under Section 10A came to an end on 24.03.2021. However,



the Principal Borrower failed to honour the debt obligations even under the OTR and defaulted in repayment of principal and interest which fell due on 31.03.2022. On account of continuous default for 30 days therefrom, the loan account of the Principal Borrower slipped to NPA on 30.04.2022. The Respondent/Financial Creditor sent default notice dated 04.05.2022 to the Principal Borrower and its guarantors and called upon the Principal Borrower to clear all outstanding dues immediately together with applicable interest, etc. Further, demand notice dated 06.06.2022 was addressed to both the Corporate Guarantors including the Applicant/Corporate Debtor calling upon them to unconditionally pay the unpaid debt in default in full within 14 days from the date of receipt of the said letter failing which CIRP under the Code would be initiated against them.

- 4.9 Thus, based on the factual matrix, it emerges that the Principal Borrower committed its first default on 30.09.2020. The Applicant/Corporate Debtor contends that since the liability of the Guarantor is co-extensive with that of the Principal Borrower as per the terms of the Deed of Guarantee dated 23.12.2019, the date of default in case of the Applicant/ Corporate Debtor/Corporate Guarantor would also be 30.09.2020, which is covered under Section 10A, and hence, the Main Application is not maintainable. There is no doubt that a corporate guarantor's liability is co-extensive with that of the primary borrower but whether the date of occurrence of default in case of the primary borrower as well as the corporate guarantor would be the same depends on the terms of guarantee. The loan agreement between Respondent/Financial Creditor and Principal Borrower and Deed of Guarantee between Respondent/Financial Creditor and Corporate



Guarantor are two different transactions/contracts and Corporate Guarantor's liability has to be read from the Deed of Guarantee. The liability of the primary borrower arises in terms of the loan documents whereas the liability of the corporate guarantor arises under the terms of the deed of guarantee which is a separate contract. The Applicant/Corporate Debtor has not succeeded in drawing our attention to either any statutory provision under the Code or any judicial precedent in support of its contention that default of the Corporate Guarantor would arise on the same date on which the Principal Borrower committed the default in repayment of debt irrespective of the terms of the relevant loan agreement and guarantee deed.

4.10 It is well-settled that the liability of the guarantor depends on the terms of his contract, as held by the Hon'ble Supreme Court in ***Syndicate Bank Vs. Channaveerappa Beleri & Ors. [(2006) 11 SCC 506]***. In this connection, it is relevant to consider the relevant clauses of the Deed of Corporate Guarantee executed between the Respondent/Financial Creditor and the Applicant/Corporate Debtor in the present case. A perusal of the Deed of Corporate Guarantee dated 23.12.2019, executed at the time of fresh Term Loan sanction of Rs.155 Crore to the Principal Borrower vide Sanction Letter dated 16.12.2019, reveals that this guarantee was executed by the Applicant/Corporate Debtor in favour of the Respondent/ Financial Creditor for the sum of Rs.155 Crore (Recital 'D'). In the event of any default on the part of the Principal Borrower, the Applicant/ Corporate Debtor "***shall upon demand from the Lender promptly pay to the Lender, without demur, all the outstanding amounts due and***



payable” by the Principal Borrower under the Security Documents (Clause 2).

Thus, it is evident that the said guarantee was ***payable on demand*** and was unconditional, absolute and irrevocable. In order to give effect to the guarantee, the Bank/Financial Creditor was entitled to act ***as if the guarantor were the principal debtor*** to the Bank (Clause 11). In the event any insolvency proceeding is filed against the Principal Borrower, the Applicant/ Corporate Debtor shall not oppose the actions of the Respondent/ Financial Creditor in such proceedings (Clause 13). The Guarantee was a ***continuing one and was irrevocable*** (Clauses 16 and 18). One of the terms and conditions of the Sanction Letter dated 16.12.2019 and Security Documents *inter alia* required Guarantors including the Applicant/ Corporate Debtor to furnish an irrevocable and unconditional guarantee in favour of the Lender to the extent of the value of shares pledged/ to be pledged to secure the repayment of credit facility granted to the Principal Borrower. Further, as per the terms of the Sanction Letter dated 16.12.2019, shares of Future Retail Limited, Future Market Network Limited, Future Enterprises Limited and Future Consumer Limited “equivalent to 0.50 times” of outstanding Term Loans at all times were to be pledged as collateral security. In view of the above, the Applicant/Corporate Debtor cannot plead that its liability is limited to the pledged shares having value of Rs.15.34 Crore only. Therefore, the plea taken up by the Applicant/Corporate Debtor being contrary to the terms of the Sanction Letter as well as the Deeds of Guarantee dated 23.12.2019 and 21.05.2021 (as brought out in succeeding Para 4.11) deserves to be dismissed as self-serving and untenable.



4.11 Similarly, the Deed of Guarantee dated 21.05.2021 executed pursuant to the OTR is also an ***unconditional, irrevocable and continuing guarantee*** from the guarantor in favour of the Respondent/Financial Creditor (Recital 'K' and Clause 2). As per Clause 1 of the Deed of Guarantee, the liability of Applicant/ Corporate Debtor/ Guarantor shall be that of a principal debtor and at the Lender's option, the Lender may treat Guarantor as primarily liable for the debt of the Borrower and the amount for which the Applicant/ Corporate Debtor was liable under the Guarantee "*shall be limited to the Loans amounting to INR 351.67 Crores and FITL of INR 51.71 Crores together with interest...*". The Respondent/Financial Creditor has relied on the judgments of Hon'ble NCLAT in ***Pooja Ramesh Singh Vs. State Bank of India & Anr.*** [Company Appeal (AT)(Ins.) No.329 of 2023] and ***IDBI Trusteeship Services Ltd. Vs. Direct Media Distribution Ventures Pvt. Ltd.*** [Company Appeal (AT)(Ins) No.850 of 2023] wherein it has been held that in case of on demand guarantee deed, the default shall arise on the part of the guarantor only when demand notice is issued as contemplated in the Deed of Guarantee. In view of the above, it follows that the liability of the Applicant/Corporate Debtor/Corporate Guarantor will arise not when the Principal Borrower defaulted in repayment of outstanding debt but only when the Respondent/Financial Creditor invoked the guarantee and demanded full payment of the unpaid debt in default. In other words, default on the part of the Applicant/Corporate Debtor/ Guarantor cannot be said to have occurred on 30.09.2020, when the Principal Borrower committed default. Nor can the default at the end of the Corporate



Debtor/ Guarantor be said to have been committed on 29.12.2020 when the loan account of the Principal Borrower was declared as NPA.

4.12 It is noticed from the record that the Respondent/Financial Creditor issued Demand Notice to the two Corporate Guarantors including the Applicant/Corporate Debtor on 06.06.2022 calling upon them to unconditionally pay the total outstanding dues within 14 days from the date of receipt of the said notice, which the Applicant/Corporate Debtor failed to do. It is a matter of record that no such demand notice was sent to the Applicant/Corporate Debtor at the time of original default occurring on 30.09.2020. Therefore, it is crystal clear that 30.09.2020, can by no stretch of imagination, be treated as the date of default in the case of the Applicant/Corporate Debtor/Corporate Guarantor. As a matter of fact, the actual default by the Corporate Guarantor would arise only upon non-payment of the amount due after the expiry of 14 days from 06.06.2022, being the date of Demand Notice i.e., on 20.06.2022. Since 20.06.2022 is far beyond the time period during which the embargo contained in Section 10A of the Code remained in force, the Main Application preferred by Respondent/Financial Creditor under Section 7 of the Code can by no means be said to be barred under Section 10A. Thus, the plea taken up by the Applicant/Corporate Debtor on this count is found to be devoid of substance and is accordingly dismissed.

4.13 As regards the contentions raised by the Applicant/Corporate Debtor based on Clauses 22 and 48 of the RBI Covid Circular dated 06.08.2020, it is pertinent to mention that the Applicant/Corporate Debtor has referred to aforesaid Clauses of the RBI Covid Circular only in its written submissions/oral arguments and the same



were not pleaded in the IA. Thus, the Applicant/Corporate Debtor is trying to enlarge the scope of the IA which is not permissible. Further, the RBI Covid Circular was applicable only to eligible borrowers whether corporate persons or otherwise having stress on account of Covid-19 and had no applicability in case of guarantors like the Applicant/ Corporate Guarantor in the present case. In view of this position, the plea taken up by the Applicant/Corporate Debtor is liable to be dismissed as untenable.

4.14 Be that as it may, it is proposed to consider the aforesaid clauses of the RBI Covid Circular. Clause 22 of the RBI Covid Circular reads as under:-

“If any of the above timelines are breached at any point, the resolution process ceases to apply immediately in respect of the borrower concerned. Any resolution plan implemented in breach of the above stipulated timelines shall be fully governed by the Prudential Framework, or the relevant instructions as applicable to specific category of lending institutions where the Prudential Framework is not applicable, as if the resolution process was never invoked under this framework”.

A perusal of above clause reveals that it speaks of consequences of breach of certain timelines laid out in Clauses 16, 17 and 18 with regard to invoking of resolution process, implementation of resolution plan within specified time and signing of Inter-Creditor Agreements (ICA) by lending institutions within specified time. All it says is that any resolution plan implemented in breach of



stipulated timelines shall be fully governed by the Prudential Framework dated 07.06.2019 rather than the RBI Covid Circular. In other words, Clause 22 does not at all make mention of any “default under the Restructuring Agreement” as contended by the Applicant/Corporate Debtor. The Applicant/Corporate Debtor has not brought out any such breach of timelines prescribed in Clauses 16,17 and 18 of the RBI Covid Circular in its own case which would have the effect of nullifying the Restructuring Agreement. To contend that Clause 22 provides that in the event of default under the Restructuring Agreement, the resolution plan will cease to be applicable as if the same was never invoked is nothing but a figment of imagination of the Applicant/Corporate Debtor. Reliance by the Applicant/ Corporate Debtor on Clause 22 of the RBI Covid Circular is thus found to be misplaced and misconstrued and its plea based thereon is accordingly dismissed.

4.15 As per Clause 48 of the RBI Covid Circular, in the event of default by the borrower with any of the signatories to ICA at the end of the review period, the asset classification of the borrower with all lending institutions, including those who did not sign the ICA shall be downgraded to NPA from the date of implementation of the resolution plan or the date from which the borrower had been classified as NPA before implementation of the plan, whichever is earlier. It is observed that this Clause was considered by the Hon'ble NCLAT in ***Pradeep Madhukar More (supra)*** wherein it was categorically held that Clause 48 is only to be read with regard to downgrading of asset classification of



borrower to NPA for the relevant date and this Clause 48 is not relevant to find out the event of default, which occurred under the OTR/Restructuring Agreement and which is the foundation of Section 7 Application. Clause 48 is intended to effect downgrading of asset classification of the borrower to NPA pursuant to default so that the reliefs and concessions granted to the borrower under the OTR can be withdrawn. Hence, reliance on Clause 48 of the RBI Covid Circular is of no help to the Applicant/Corporate Debtor. There is nothing in the RBI Covid Circular to indicate that such downgrading of borrower's account to NPA from the date of implementation of resolution plan or prior thereto will also apply or hold good for the purpose of the Code too. Similarly, there is nothing in the Code or the regulations made thereunder to the effect that date of default in such cases will be ascertained in accordance with the RBI Covid Circular. The RBI Covid Circular cannot be interpreted *de hors* the context in which it was issued and the purpose for which it was issued. Thus, it is clear that it is not the RBI Covid Circular which will dictate the manner of determination of date of default under the Code and that the same will instead be governed by the provisions of Section 3(12) of the Code.

4.16 On perusal of Clause 48, it is apparent that this clause has no applicability in case of the Applicant/ Corporate Guarantor and is instead applicable in case of the Principal Borrower which committed the default under the OTR. Pursuant to default under the OTR, the reliefs and concessions granted to the Principal Borrower would stand withdrawn in terms of Clause 48 and the outstanding



dues would be reversed to the amount due prior to the sanction of OTR. In these circumstances, the amount of debt due will have to be calculated w.e.f. 29.12.2020 when the loan account of the Principal Borrower was classified as NPA under the original loan documents before implementation of the OTR. However, Clause 48 nowhere states that the date of default for purposes of the Code will also stand reverted to the pre-OTR period, i.e., 30.09.2020. It needs to be borne in mind that the RBI Covid Circular cannot override the provisions of the Code. Further, Clause 48 deals only with the consequence of default by a borrower under OTR for the limited purpose of asset classification of such borrower in the records of all lenders. We find that there is nothing in Clause 48 to even remotely suggest that in the event of default under the OTR, the Restructuring Agreement itself will cease to apply or will become invalid or void. Merely because the NPA date is mentioned in the Application as 29.12.2020 in compliance with the requirements of Clause 48, no benefit can be derived by the Applicant/ Corporate Debtor by contending that the Application was filed for default during the prohibited period contemplated under Section 10A of the Code.

4.17 In order to appreciate the nature and effect of the OTR, it is imperative to consider the main features of the OTR as well as certain relevant clauses of the Restructuring Agreement dated 21.05.2021 executed pursuant to the RBI Covid Circular between the Principal Borrower and its two lenders, namely, the Respondent/Financial Creditor and Bank of Baroda. It is noticed from the record



that the Respondent/Financial Creditor approved the OTR proposal of the Principal Borrower *vide* letter dated 21.05.2021 under the RBI Covid Circular by way of Restructuring the existing three Term Loan Accounts on the existing rate of interest; allowing moratorium in repayment schedule of 2 out of 3 Term Loan Accounts for 18 months (over and above 6 months already allowed under RBI Regulatory Package); extending the repayment period of the third Term Loan by 13 months under OTR; approving funding of the interest on all three Term Loan accounts for the period November, 2020 to February, 2022 as fresh Funded Interest Term Loan (FITL) of Rs.51.71 Crore carrying interest @ 8% and permitting reversal of the excess charged interest on Term Loan for the period November, 2020 till date of implementation. Thus, fresh FITL of Rs.51.71 crores was sanctioned under the OTR and was disbursed to the Corporate Debtor from 21.05.2021 to 02.03.2022.

4.18 Coming now to the terms of the Restructuring Agreement, Clause 2.1(b) states that upon execution of the Agreement, all the rights and obligations of the parties under the original Loan Agreement and other Existing Finance Documents shall stand supplemented by the rights and obligations under this Agreement. Clause 2.1(c) clarifies that the provisions of the Existing Finance Documents which are not inconsistent with the provisions of this Agreement shall continue to be binding on the Borrower, Lender and other parties to such Existing Finance Documents. Clause 2.1(e) provides that this Agreement shall constitute the entire Agreement between the parties concerning the outstanding loans and



FITL and supersedes all previous proposals, agreements, understandings, negotiations and other written and oral communications in relation thereto. As per Clause 8.1, each of the following events shall, *inter alia*, constitute an Event of Default under this Agreement.

- (a) Default by the Borrower in the payment of any installment of the principal amount under the Loans and FITL on the Due date.
- (b) Default by the Borrower in payment of any installment of interest on the Loans and FITL on any Interest Payment Date.

The Fourth Schedule of the Restructuring Agreement contains the Amortisation Schedule for Loans under which repayment of outstanding term loans of Rs.351.67 Crore was to be made in monthly stepped-up installments commencing from 31.03.2022 to 29.02.2028 after the end of moratorium period. The first installment of term loans payable to the Respondent/Financial Creditor as on 31.03.2022 was Rs.5.77 Crore. Similarly, as per Amortisation Schedule for FITL, the first monthly installment repayable as on 31.03.2022 was Rs.2.15 Crore. It is pertinent to mention that the Applicant/Corporate Debtor committed default in payment of the very first monthly installment of its restructured loan accounts and FITL account falling due on 31.03.2022 under the OTR/Restructuring Agreement. It is thus evident that the aforesaid defaults including the one pertaining to the fresh FITL account occurred on 31.03.2022 under Clause 8.1 of the Restructuring Agreement and not under the original loan agreement.



4.19 Thus, it is found that the Restructuring Agreement dated 21.05.2021 constituted the entire Agreement between the parties concerning the outstanding loans and FITL (which was disbursed only under the OTR) and modified all previous agreements in relation thereto. Further, it was only the Restructuring Agreement which was to govern the events of default in payment of any installment of principal amount or interest under the loans and FITL and consequences thereof. Since the default in repayment of principal and interest on Term Loan and FITL due as on 31.03.2022 has taken place under the OTR, the said Restructuring Agreement will prevail with full force and the same cannot be wished away or negated nor can the OTR be said to have been rendered void, as contended by the Applicant/ Corporate Debtor. It is noticed on perusal of the order of co-ordinate Bench of NCLT, Kolkata in **REC Ltd.** (supra) relied upon by the Applicant that this order actually supports the case of the Respondent/ Financial Creditor. In that case, while the date of default mentioned in Part-IV of the application was based on the original sanction of loan facilities, the contention of the corporate debtor was that the date of default should be reckoned on the basis of the restructured loan which fell within the prohibited period covered by Section 10A of the Code. While accepting the corporate debtor's contention and admitting the application, the learned co-ordinate Bench concluded that the restructured plan was a new financial contract; that the default had taken place in payment of the very first instalment of debt and interest that fell due in terms of the revised restructuring plan (as in the present case) and that the date of default being 31.03.2021 was outside the 10A period.



4.20 It is noticed from the record that though the Applicant/Corporate Debtor committed the first default on 30.09.2020, the Respondent/Financial Creditor did not rush to file application under Section 7 of the Code based on the said date of default. However, the Main Application has been filed based on the subsequent default occurring under the OTR on 31.03.2022 which is beyond the prohibited period covered under Section 10A of the Code. This clearly shows that the Respondent/Financial Creditor did not file the Application immediately on or after 30.09.2020 but acted pursuant to the RBI Covid Circular which was issued to mitigate the impact of COVID-19 Pandemic on the ultimate borrowers and reduce the financial stress for borrowers across the board. The OTR dated 21.05.2021 was entered into between the parties pursuant to the RBI Covid Circular. As the Principal Borrower failed to honour its obligations under such restructuring, a fresh default came into existence when the Principal Borrower defaulted in repayment of principal and interest which fell due and payable on 31.03.2022. Since the initial date of default ceases to exist upon OTR of the debt owed to the Respondent/ Financial Creditor, the said date of default cannot be taken as a cause of action for the Section 7 Application. We are fortified in this view by the judgment of the Principal Bench of Hon'ble NCLAT in **Pradeep Madhukar More** (supra) wherein it was categorically held in the matter of none other than the Principal Borrower in instant case as under:-

“Section 7 of the Code filed by the Central Bank of India was not for any default committed during 10A period, rather the Application was filed for default committed on

31.03.2022 under the One Time Restructuring Agreement dated 21.05.2021 and the event of default under One Time Restructuring Agreement happened only on 31.03.2022, giving right to the Financial Creditor to take recourse of Section 7 Application....”.

4.21 It is now proposed to deal with the judicial decisions cited on behalf of the Applicant/ Corporate Debtor. For instance, the judgment of Hon'ble Supreme Court in **Ramesh Kymal** (supra) has no application to the present case as no change of date of default is being sought by the Respondent/ Financial Creditor and Part-IV of the present Application clearly states that the date of default is 31.03.2022 under Section 7 of the Code on the basis of a subsequent default under the OTR. Similarly, with regard to the judgments cited in Para 2.5 above, there is no room for doubt that admission made in the pleadings by a party is the best proof of the admitted facts. However, the Applicant/ Corporate Debtor conveniently chooses to overlook the fact that the pleadings of the Respondent/ Financial Creditor in Part-IV of the Application also show that the “date of default” is 31.03.2022 when the Corporate Debtor committed a default in paying the instalment due and payable under the OTR Agreement dated 21.05.2021. Further, the legal proposition emerging from the cases of **Rajasthan State Industrial Development and Investment Corporation, Hindustan Cooperative Housing Building Society Limited** and **J.K. Cotton Spinning and Weaving Mills** (supra) is well-settled that the phrase “as if” creates a legal fiction and that such legal fiction should be deemed to be in existence only for the limited purpose for which it was created. However, this does not mean that



the legal or deemed fiction can be applied in such a manner and to such an extent as to draw far-fetched and implausible inferences or conclusions like the one drawn by the Applicant/ Corporate Debtor contending that “*Clause 22 (of RBI Covid Circular) provides that in the event of default under the Restructuring Agreement, the resolution plan will cease to be applicable as if the same was never invoked*”. We have already brought out in Para 4.14 above as to how this contention raised by the Applicant/ Corporate Debtor is totally misconstrued.

4.22 It is well-settled that the provisions of the Code must be given a purposive interpretation in order to serve the avowed objective of the Code. An interpretation which defeats the very purpose or objective of the Code or renders it nugatory and otiose has to be avoided. If the interpretation sought to be put by the Applicant/Corporate Debtor on the RBI Covid Circular is accepted, a defaulter corporate debtor would stand to derive undue advantages – having already committed a default under the original loan documents, it once again commits default under the terms of the OTR and above all, it would also manage to escape the consequences of default of financial debt seeking shelter under the provisions of Section 10A of the Code because all such OTRs sanctioned under the RBI Covid Circular would involve defaults occurring during the period covered by Section 10A.

4.23 To sum up, the cause of action for the Main Application under Section 7 arose in the present case on 20.06.2022, as brought out in Para 4.12 above when pursuant to invocation of guarantee by the Respondent/ Financial Creditor, the Applicant/Corporate Guarantor failed to pay the outstanding dues of Rs.420.13



Crore in default in full in terms of the Deed of Guarantee. In these circumstances, we have no hesitation in holding that since the default occurred in the instant case long after the expiry of the prohibited period covered under Section 10A, the Main Application filed by the Respondent/ Financial Creditor is maintainable and is not at all barred under Section 10A of the Code.

4.24 Accordingly, in view of aforesaid discussions and findings, I.A. No.3607 of 2022 is **dismissed**.

4.25 **IA No.548/2024**: This IA was filed by the Applicant/ Corporate Debtor on 30.01.2024 seeking postponement of hearing of the Main Application by a period of four weeks in order to enable the parties to conclude the settlement talks between them. The Applicant/Corporate Debtor submitted that pursuant to the valuation report on the pledged shares provided by the Respondent Bank, it had proposed a One Time Settlement (OTS) for full and final settlement to the Respondent Bank. The parties had commenced settlement talks without prejudice to their rights and remedies in relation to the contentions raised in the Main Application. The settlement proposal was under consideration by the Respondent.

4.26 The Respondent/Financial Creditor submitted that the Principal Borrower and its Guarantors including the Applicant/Corporate Debtor are part of the Future Group of Companies that are currently facing severe financial stress. It also submitted that the OTS proposals furnished by the Applicant/Corporate Debtor turned out to be nothing but false promises.



- 4.27 Having heard the Counsel for both sides, we observe that more than 7 months have already elapsed and the Applicant/Corporate Debtor has not apprised this Tribunal about the conclusion of any settlement or consent terms with the Respondent/ Financial Creditor. As pointed out above, the attempts made by the Applicant/ Corporate Debtor by making OTS proposals to the Respondent/ Financial Creditor have also not yielded any concrete result. The Respondent/ Financial Creditor in its commercial wisdom did not accept the OTS proposals made by the Applicant/Corporate Debtor. We also observe that no OTS proposal is said to be pending for consideration of the Respondent/ Financial Creditor as on the last date of hearing of the matter. In these circumstances, we do not see any valid reason to allow any further time to the Applicant/ Corporate Debtor on this count. Meanwhile, the Applicant/ Corporate Debtor has been vigorously pursuing its other IA No.3607/2022 challenging the maintainability of the Main Application filed by the Respondent/ Financial Creditor under Section 7 of the Code which has already been disposed of above. We find merit in the contention of the Respondent/Financial Creditor that the Principal Borrower and its Guarantors including the Applicant/Corporate Debtor forming part of Future Group of Companies have been facing severe financial stress, as evidenced by the financial statements of the Principal Borrower placed on record. In view of this position, **IA No.548/2024** is also **dismissed** as the same has become infructuous.
- 4.28 In the result, **both IA No.3607 of 2022 and IA No.548 of 2024 are dismissed** and stand disposed of.



4.29 This Order in IA No.3607 of 2022 is adverse to the Applicant /Corporate Debtor.

What is left for us in the matter is to order initiation of CIRP in respect of the Applicant/Corporate Debtor; appoint an IRP and declare moratorium in terms of Section 14 of the Code. As both the Counsel for the Applicant/Corporate Debtor and the Respondent/Financial Creditor submitted that the matter under dispute in this IA is covered in the Writ Petitions referred to in Para 4.1 above before the Hon'ble High Court of Bombay, we desist from giving effect to this Order for a period until 24.09.2024.

4.30 List the Main Application i.e., CP (IB) No.1158/MB/2022 for orders on 24.09.2024.

4.31 The designated Registrar is directed to forward electronic version of this Order to the Insolvency and Bankruptcy Board of India for information and record.

Sd/-

**SANJIV DUTT
MEMBER (TECHNICAL)**

Deepa &JNK

Sd/-

**K. R. SAJI KUMAR
MEMBER (JUDICIAL)**