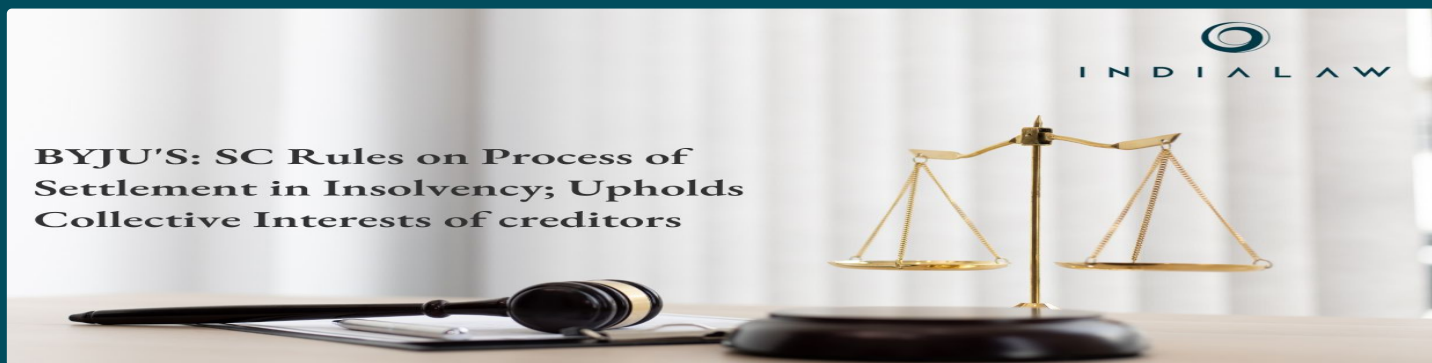




CIVIL

BYJU'S: SC Rules on Process of Settlement in Insolvency; Upholds Collective Interests of creditors

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In a significant judgment, the Supreme Court of India recently adjudicated on critical aspects of the Insolvency and Bankruptcy Code (IBC) in the case of GLAS Trust Company LLC vs. BYJU Raveendran & Ors. **The court addressed whether an insolvency process, once initiated, could be withdrawn due to a private settlement without adhering to procedural for Corporate Insolvency Resolution requirements set out under the Insolvency and Bankruptcy Code, 2016 (IBC).** This judgment has far-reaching implications for creditors, debtors, and other stakeholders involved in corporate insolvency cases, affirming that the procedural framework of the IBC must be respected to protect collective rights of all creditors in the corporate insolvency resolution process.

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Background and Key Issues

The case involved Think and Learn Pvt Ltd, the parent company of BYJU's, India's largest ed-tech firm, as the corporate debtor. The initial insolvency proceeding began with an operational debt claim filed by the Board of Control for Cricket in India (BCCI) related to sponsorship dues. Following the admission of the case by the National Company Law Tribunal (NCLT), a private settlement was negotiated between the BCCI and BYJU's representatives, leading to an appeal before the National Company Law Appellate Tribunal (NCLAT) to withdraw the insolvency proceedings.

The NCLAT approved the withdrawal using its inherent powers under Rule 11 of the National Company Law Appellate Tribunal Rules, 2016 (NCLAT Rules), despite objections from GLAS Trust Company LLC, a financial creditor of BYJU's. GLAS argued that such an agreement without Committee of Creditors (CoC) approval would undermine the **collective rights of all creditors**. The main issues before the Supreme Court were:

1. Locus Standi of Financial Creditors in Settlement Proceedings: The Supreme Court had to decide if a financial creditor who is not party to the settlement has the right to challenge it.
2. Misuse of NCLAT's Inherent Powers: Could the NCLAT rely on its inherent powers under NCLAT Rule 11 to approve the settlement despite the detailed procedural process provided in Section 12A of the IBC and Regulation 30A?
3. Compliance with Section 12A of the IBC: The court examined if the structured process for settlement and withdrawal of insolvency proceedings, specifically requiring CoC approval with a 90% voting threshold, should have been strictly followed.

The Court's Reasoning and Legal Analysis

The Supreme Court observed that the purpose of the IBC is to ensure the resolution process functions as a collective action for the benefit of all creditors, not just individual parties. The court emphasized that once an insolvency application is admitted, the proceedings assume an "in rem" character, impacting all stakeholders. This feature differentiates insolvency processes from private disputes, making it essential that any settlement respects the interests of all creditors involved.

Rule 11 vs. Section 12A of IBC: The NCLAT had invoked Rule 11 of the NCLAT Rules, which provides for the tribunal's inherent powers to ensure justice. However, the Supreme Court highlighted that Rule 11 could not be used to bypass the specific procedural requirements under Section 12A and Regulation 30A. The court noted that the law mandates that the CoC must approve any withdrawal after insolvency proceedings have been initiated, requiring a 90% voting share.

The court also reviewed precedents affirming that, while NCLAT's inherent powers can serve to prevent misuse of the tribunal's process, these should not override specific statutory processes designed to secure creditors' interests. Here, the structured framework provided by Section 12A was intended to protect all stakeholders and ensure a fair distribution of claims and assets. The Court reasoned that adherence to this **statutory framework avoids the risk of preferential settlements**, which could unfairly prejudice other creditors.

Concluding Remarks

The Supreme Court's decision in this case upholds the necessity of a strict adherence to IBC procedures, particularly for settlements post-CIRP initiation. By rejecting the NCLAT's approval of a private settlement outside the structured CoC process, the court has reaffirmed that insolvency is a collective process, aimed at addressing the interests of all creditors rather than allowing individual creditors to negotiate preferential recoveries. This judgment is a reminder that the IBC is a comprehensive mechanism aimed at ensuring fair treatment for all stakeholders, not merely a recovery tool.

This judgment sets a precedent that reinforces the integrity of the insolvency resolution process in India. By mandating that settlements comply with Section 12A requirements, the Supreme Court has strengthened the procedural rigor of the IBC and upheld the principle of collective creditor interest. This ruling will likely shape the approach of tribunals and creditors in future insolvency cases, emphasizing a fair and transparent resolution process over individual settlements that might compromise collective rights.

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