



CIVIL

CoC's Unfettered Authority vs. RP's Regulation 39(1A) Limitation

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On 28 March 2025, the National Company Law Appellate Tribunal (NCLAT) delivered a significant judgment in the case of Sagar Stone Industries vs. Sajjan Kumar Dokania & Ors., dismissing two appeals filed by an unsuccessful Resolution Applicant challenging the order passed by the Adjudicating Authority (National Company Law Tribunal, NCLT) on 21 February 2025. The bench, comprising Justice Ashok Bhushan, Technical Member Barun Mitra, and Member (Technical) Arun Baroka, analysing the legal provisions upheld the NCLT's decision.

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Background of the Case

The case related to the Corporate Insolvency Resolution Process (CIRP) of Jabalpur MSW Pvt. Ltd. (Corporate Debtor). During the resolution process, ten resolution plans, including one submitted by Sagar Stone Industries (Appellant), were considered by the Committee of Creditors (CoC). On 11 June 2024, the CoC approved the resolution plan of the Successful Resolution Applicant (SRA) with a 100% vote share. The Appellant subsequently filed two applications (I.A. No. 4977/ND/2024 and I.A. No. 5769/ND/2024) before the NCLT, seeking rejection of the approved resolution plan and directions for the Insolvency and Bankruptcy Board of India (IBBI) to initiate an enquiry against the Resolution Professional (RP). Both applications were dismissed by the NCLT, leading to the present appeals.

Legal Provisions at Play

The judgment hinged on the interpretation and application of key provisions of the Insolvency and Bankruptcy Code, 2016 (IBC) and the CIRP Regulations, 2016 (Regulation):

- **Section 30 of the IBC:** Empowers the CoC to approve a resolution plan.
- **Regulation 39(1A):** Prohibits the Resolution Professional from permitting modifications to a resolution plan more than once.

NCLT's Decision

The NCLT dismissed the Appellant's applications, holding that:

1. The Appellant was informed about the rejection of its resolution plan and the approval of the SRA's plan through telephone communication and email.
2. The CoC's decision to approve the SRA's plan was based on commercial wisdom and could not be interfered with.
3. The challenge mechanism was optional and not a mandatory requirement for the approval of a resolution plan.

Contentions Before the NCLAT

Appellant's Contentions:

The Appellant contended that it was never formally notified about the rejection of its resolution plan or the approval of the SRA's plan. It argued that the CoC violated Regulation 39(1A) by revising the resolution plan more than once without resorting to the challenge mechanism. Additionally, the Appellant sought directions for the IBBI to initiate an enquiry against the RP for alleged misconduct.

Respondent's Contentions:

The Respondent argued that the Appellant was informed about the decision through telephone communication and via email. It emphasized that the CoC has the authority to revise resolution plans and negotiate with Resolution Applicants to maximize

value. The Respondent further contended that the challenge mechanism is optional and not a mandatory requirement for the approval of a resolution plan.

NCLAT's Analysis

The NCLAT's analysis centered on three pivotal issues: notification requirements, compliance with Regulation 39(1A), and the necessity of the challenge mechanism.

The tribunal held that the lack of written notification did not invalidate the CoC's decision, as the Appellant was informed telephonically and via email. It further clarified that Regulation 39(1A) applies to the Resolution Professional and does not restrict the CoC's authority to revise resolution plans or negotiate with Resolution Applicants. The NCLAT emphasized that the challenge mechanism is optional and not a mandatory requirement for the approval of a resolution plan. The CoC's commercial judgment in approving the resolution plan could not be interfered with.

Final Decision

The NCLAT upheld the NCLT's decision, dismissing both appeals. The tribunal concluded that the CoC's decision to approve the SRA's resolution plan was valid and based on commercial wisdom. The Appellant's contention regarding the lack of notification and violation of Regulation 39(1A) were unfounded. The challenge mechanism's absence did not affect the validity of the resolution plan.

Conclusion

The NCLAT's judgment in *Sagar Stone Industries vs. Sajjan Kumar Dokania & Ors.* highlights the crucial role of the Committee of Creditors (CoC) in the Corporate Insolvency Resolution Process (CIRP). By affirming the CoC's authority to revise resolution plans multiple times and negotiate with Resolution Applicants, the tribunal has clarified that Regulation 39(1A) of the IBC, which restricts the Resolution Professional (RP) from permitting more than one revision, does not apply to the CoC. This decision reinforces the CoC's mandate to act in the best interests of creditors and maximize value through commercially informed decisions. It also highlights that procedural constraints like the challenge mechanism are optional and do not override the CoC's commercial judgment.

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