INDIALAW

CIVIL

Buyer Beware: Court Holds New Management Liable for Unpaid Gratuity in Insolvency Cases

AUTHOR Rahul Sundaram

PUBLISHED 5 March 2025

The High Court of Calcutta recently delivered a significant judgment in the case of M/s. Stesalit Limited vs. Union of India & Ors., addressing disputes over gratuity payments under the Payment of Gratuity Act, 1972, and its interplay with the Insolvency and Bankruptcy Code, 2016 (IBC). The case involved a writ petition filed by M/s. Stesalit Limited challenging an order from the Assistant Labour Commissioner (Central) & Controlling Authority under Payment of Gratuity Act, 1972, which directed the company to pay gratuity dues to its former employee, Shri Arun Roy.

Table of contents

- Background of the Case
- Key Legal Issues
- Court's Analysis
- Judgment and Outcome
- Implications of the Judgment

Background of the Case

M/s. Stesalit Limited, a company undergoing Corporate Insolvency Resolution Process (CIRP) under the IBC, had been taken over by a new management. During the CIRP, Shri Arun Roy, a former employee who worked as Manager, Technical Operations, filed a claim for gratuity. This claim was **partially** admitted under the approved Resolution Plan, awarding him Rs. 38,808.43. However, the Assistant Labour Commissioner Central and Controlling Authority under Payment of Gratuity Act, 1972 (Controlling Authority) passed an order directing the company to pay a significantly higher gratuity amount of Rs. 2,11,154, along with 10% annual interest, citing the extant provisions of the Payment of Gratuity Act.

Key Legal Issues

The petitioner company argued that the Controlling Authority lacked jurisdiction to entertain the gratuity claim since the matter fell under the IBC's regulatory framework. They contended that the IBC, as special legislation, overrides the Payment of Gratuity Act. Additionally, they claimed that Shri Arun Roy, as a supervisory employee, could not raise an industrial dispute and that the IBC's liquidation estate provisions should apply.

On the other hand, Shri Arun Roy argued that the company had not exhausted appellate remedies before approaching the High Court. He also emphasized that gratuity payments are statutory entitlements under labour law and do not form part of the liquidation estate under Section 36(4)(a)(iii) of the IBC.

Court's Analysis

The court carefully examined precedents from the National Company Law Tribunal (NCLT) and Appellate Tribunal (NCLAT), including cases like Dnyanaba Namdeo Karande vs. Calyx Chemicals and Savan Godiwala vs. Lanco Infratech Limited. These rulings consistently upheld that gratuity dues are excluded from a company's liquidation estate and must be paid in full to employees, regardless of whether separate funds were maintained.

The court clarified that while the IBC governs insolvency proceedings, the Payment of Gratuity Act specifically protects employees' rights. Section 14 of the Gratuity Act grants it overriding authority over conflicting laws, ensuring employees receive their dues. The court also highlighted the principle of Caveat Emptor (buyer beware), stressing that the new management assuming control of the company was obligated to conduct due diligence, including addressing outstanding employee liabilities like gratuity.

Judgment and Outcome

The High Court dismissed the writ petition, ruling in favour of Shri Arun Roy. It affirmed that the Controlling Authority had lawful jurisdiction to adjudicate the gratuity claim since the company remained operational under CIRP and post approval of the resolution plan and had not been liquidated. The court emphasized that gratuity payments are distinct from liquidation assets and must be honoured in full, prioritizing employees' welfare over other creditors' claims.

The court directed M/s. Stesalit Limited to pay the gratuity amount of Rs. 2,11,154 to Shri Arun Roy within 30 days of the order, along with 10% annual interest from the date of his resignation (December 3, 2014). It also noted that the company's failure to account for gratuity obligations during the insolvency process reflected negligence, but this did not absolve it of its legal duty under the Gratuity Act.

Implications of the Judgment

This ruling reinforces the protection of employees' statutory rights during corporate insolvency proceedings. It clarifies that even under the IBC, gratuity payments remain a priority and are excluded from liquidation assets. The judgment also highlights the importance of due diligence for entities acquiring companies under insolvency, ensuring they address all employee liabilities proactively.

The court's decision balances the objectives of the IBC with the imperative to safeguard workers' entitlements, setting a precedent for similar cases involving gratuity disputes in insolvency contexts.For further details write to contact@indialaw.in