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Mandatory Compliance with Rule 9 of SARFAESI Rules: Supreme Court Quashes Sixteen-Year-Old Auction Sale for Statutory Non-Compliance

The enforcement of security interests under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) has long been a contentious domain where the competing interests of secured creditors, borrowers, guarantors, and auction purchasers frequently collide. The Supreme Court of India, in M.R. Vasumathi v. Authorized Officer and Ors., […]

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The enforcement of security interests under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) has long been a contentious domain where the competing interests of secured creditors, borrowers, guarantors, and auction purchasers frequently collide. The Supreme Court of India, in M.R. Vasumathi v. Authorized Officer and Ors., Civil Appeal No. 1606 of 2026, decided on 9 June 2026 by a Bench comprising Justice Dipankar Datta and Justice Augustine George Masih, delivered a landmark judgment reaffirming the mandatory character of procedural safeguards in auction sales under the SARFAESI framework while simultaneously demonstrating the Court's equitable jurisdiction under Article 142 of the Constitution. The appeal arose from the judgment dated 21 September 2020 passed by the Madras High Court in Writ Petition No. 29641 of 2019, whereby the High Court dismissed the writ petitions filed by the appellant, daughter of the deceased guarantor, and her brother, declining to interfere with the auction sale of the secured asset conducted by Indian Bank.

The factual narrative traces its origin to 1984, when S. Murugesan, sole proprietor of M/s Shiv Shankar Agencies, availed financial assistance from Indian Bank. G. Ramanujam stood as guarantor and mortgaged his immovable property in favour of the bank. On account of default, the secured creditor instituted a suit before the City Civil Court, Chennai. On 10 September 1997, the civil court passed a preliminary decree for Rs. 1,87,004.23 along with interest at 18 per cent per annum. This decree remained unexecuted for a significant period. G. Ramanujam expired on 26 September 2001, leaving behind his legal heirs including the appellant M.R. Vasumathi and her brother. Several settlement attempts failed, and the debt remained unresolved.

Nearly twelve years after the preliminary decree, on 8 September 2009, the secured creditor issued a demand notice under Section 13(2) of the SARFAESI Act quantifying dues at Rs. 95,42,372.52. A possession notice dated 21 December 2009 and a sale notice dated 3 February 2010 followed, proposing auction under the Security Interest (Enforcement) Rules, 2002. The auction was conducted on 11 March 2010, with the second respondent emerging as successful bidder at Rs. 2,11,00,500. Twenty-five per cent was paid on 10/11 March 2010, and the balance 75 per cent on 31 March 2010. The sale certificate was issued in April 2010.

The heirs challenged the proceedings before the Debts Recovery Tribunal (DRT), Chennai. They filed S.A. No. 28 of 2010 under Section 17 of the SARFAESI Act, and subsequently S.A. (Sr. No. 6473 of 2010) to set aside the auction sale. They also filed miscellaneous applications seeking redemption, condonation of delay, and interim relief. On 30 December 2010, the DRT dismissed these applications, holding that the challenge to the notice of intended sale was infructuous since the property was already sold, and that Section 5 of the Limitation Act, 1963 was inapplicable to Section 17 applications. The Debts Recovery Appellate Tribunal (DRAT) dismissed the appeals on 16 December 2016, affirming the DRT's reasoning.

The appellant then approached the Madras High Court in W.P. No. 29641 of 2019, and her brother filed W.P. No. 27770 of 2019. The High Court dismissed both writ petitions on 21 September 2020. It observed that the writ petitioners had remained indolent for approximately 4,500 days without taking steps to set aside the ex parte decree, and such prolonged inaction disentitled them from challenging the recovery proceedings. The High Court held that the SARFAESI Act provided an independent expeditious mechanism for recovery, and the existence of a prior decree did not preclude its invocation. It noted concurrent findings of the DRT and DRAT affirming statutory compliance, and dismissed the petitions on the premise that the natural circulation of public money cannot be thwarted by frivolous personal grievances.

Before the Supreme Court, the appellant contended that the demand notice after twenty-five years was unjustifiable. He assailed the valuation process, alleging fraud in obtaining the report through the original borrower rather than the authorised officer as mandated by Rule 8(5). He emphasised that Rule 9(3) mandates immediate deposit of 25 per cent, and Rule 9(4) requires balance payment within fifteen days or extended period by written agreement. The auction purchaser allegedly failed to pay immediately in the prescribed mode, and the balance was paid on 31 March 2010 without written agreement for extension, rendering the sale a nullity. He argued that unilateral waiver by the secured creditor was impermissible. He also contended that for a debt of approximately Rs. 95 lakh, only a portion of the property ought to have been sold, not the entire property. He assailed reliance on the amended definition of "debt" under Section 2(ha) introduced by Act 44 of 2016, insisting the unamended definition governed. He urged that proceedings were illegal since the claim stood adjudicated by the civil court, and the secured creditor ought to have proceeded for execution, referring to Section 36 of the SARFAESI Act.

Learned counsel Mr. Brijesh Kumar Tamber for the secured creditor maintained that the definition of debt includes liabilities under a decree and accrued interest. He contended the auction was transparent, with the auction purchaser bidding Rs. 2.11 crore above the reserve price of Rs. 1.58 crore. Any minor delay was within the secured creditor's power to waive or extend. He

relied on concurrent upholding by DRT, DRAT, and High Court. Learned senior counsel Mr. Soumya Chakraborty for the auction purchaser sought protection as a bona fide purchaser kept out of enjoyment for over a decade. He argued cancellation after sixteen years would be catastrophic, given deprivation of development opportunity and inflation costs from prolonged litigation.

The Supreme Court framed two issues: whether SARFAESI proceedings initiated twelve years after the preliminary decree were vitiated by limitation; and whether the sale stood vitiated by non-compliance with statutory requirements. The Court observed that auction validity must be tested strictly on statutory compliance, not equitable considerations. The SARFAESI Rules bind secured creditor and auction purchaser equally.

Examining Rule 9, the Court reproduced sub-rules 3, 4, and 5. Rule 9(3) mandates immediate 25 per cent deposit, with forfeiture and resale in default. Rule 9(4) requires balance payment within fifteen days of confirmation or extended period by written agreement. Rule 9(5) provides forfeiture of deposit and all claims in case of default. The Court relied on Sri Siddeshwara Cooperative Bank Ltd. v. Ikbal [(2013) 10 SCC 83], holding these provisions mandatory, though waivable by the beneficiary party depending on facts. The Court found these provisions neither ornamental nor directory; they go to the root of sale validity. Any deviation without legally sustainable justification renders the process vulnerable.

The facts showed the auction on 11 March 2010, with 25 per cent deposited via demand drafts on 10/11 March 2010. However, the balance 75 per cent was paid only on 31 March 2010. The secured creditor's communication dated 11 March 2010 explicitly required balance payment within fifteen days, failing which the deposit would be forfeited and sale cancelled. The fifteen-day period expired on 26 March 2010, making the 31 March 2010 payment ex facie beyond the statutory period. The auction purchaser's contention that sale confirmation occurred only on 11 March 2010 was rejected.

The Court examined whether deviation was regularised by waiver or extension. Nothing in the record demonstrated any prayer for extension prior to 31 March 2010, or any written agreement extending time. The Court relied on IDBI Bank Ltd. v. Ramswaroop Daliya [2024 SCC OnLine SC 2878], holding that the fifteen-day period is extendable only by written agreement of parties, and default must first exist to invite cancellation. The DRT, DRAT, and High Court had proceeded on broader considerations of delay, borrower conduct, and equities favouring the auction purchaser. While the record showed no concrete steps by the appellant to liquidate dues, the Court held that failure to repay without knowledge of extension granted to the auction purchaser cannot validate otherwise vitiated proceedings.

The Court emphasised that auction purchaser rights and sale sanctity ordinarily merit protection, but such protection is not absolute. It yields where the process is legally infirm or incongruous with the statutory framework. The SARFAESI Act's object is not mechanical sale culmination but lawful, fair, transparent realisation strictly compliant with prescribed rules. Non-adherence to the timeline constitutes material irregularity going to the root. The mere fact of sale confirmation cannot foreclose judicial scrutiny.

The Court noted the appellant's implicit readiness to redeem, evidenced by multiple DRT applications seeking permission to deposit the required amount. Such steps, taken amid adverse proceedings, evinced clear intent to redeem. The contention that legal heirs showed inadequate repayment interest cannot advance the secured creditor's case, as statutory non-compliance cannot be sanctified on such grounds. The property vested in legal heirs upon G. Ramanujam's demise, and they cannot be divested except through fair, just procedure strictly conforming to the governing statute.

The Court allowed the appeal in part, setting aside the High Court, DRAT, and DRT orders. The auction sale of 11 March 2010 was quashed. However, the auction purchaser was entitled to refund of entire deposits with 7 per cent interest from respective deposit dates until payment, to be effected within six weeks. The appellant was granted opportunity to redeem the mortgage, to approach the secured creditor within two weeks to ascertain amount due. Upon payment within the stipulated period (not less than one month from intimation), the asset would be restored free from encumbrances. The redemption amount was fixed at Rs. 95,42,372.52 with 5 per cent interest from the Section 13(2) notice date until payment. If the appellant failed to pay, the asset could be re-auctioned after eight weeks, with the secured creditor obtaining a fresh valuation from a government-empanelled valuer. These directions were issued under Article 142 as a one-time measure, with forfeiture of all rights upon failure to avail the opportunity. The limitation issue was left open as superfluous given the resolution on sale validity. Parties were directed to bear their own costs.

This judgment significantly advances SARFAESI jurisprudence by reaffirming that statutory procedural mandates cannot be diluted by equitable considerations or passage of time. The insistence on strict Rule 9 compliance, particularly written agreement for extension, sets clear precedent. Simultaneously, Article 142's invocation to grant one-time redemption while protecting the auction purchaser through refund with interest demonstrates the Court's commitment to balancing equities. The judgment is a stern reminder that the SARFAESI Act is not carte blanche for recovery; every procedural safeguard must be scrupulously

adhered to. For legal heirs, it reinforces that lawful interest cannot be divested except through fair, just, and strictly conforming procedure. By leaving the limitation question open, the Court preserves the appellant's position for future proceedings while resolving the immediate controversy on procedural irregularity grounds. The judgment thus achieves delicate balance between upholding rule of law in secured asset enforcement and ensuring justice between parties in these peculiar circumstances.

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