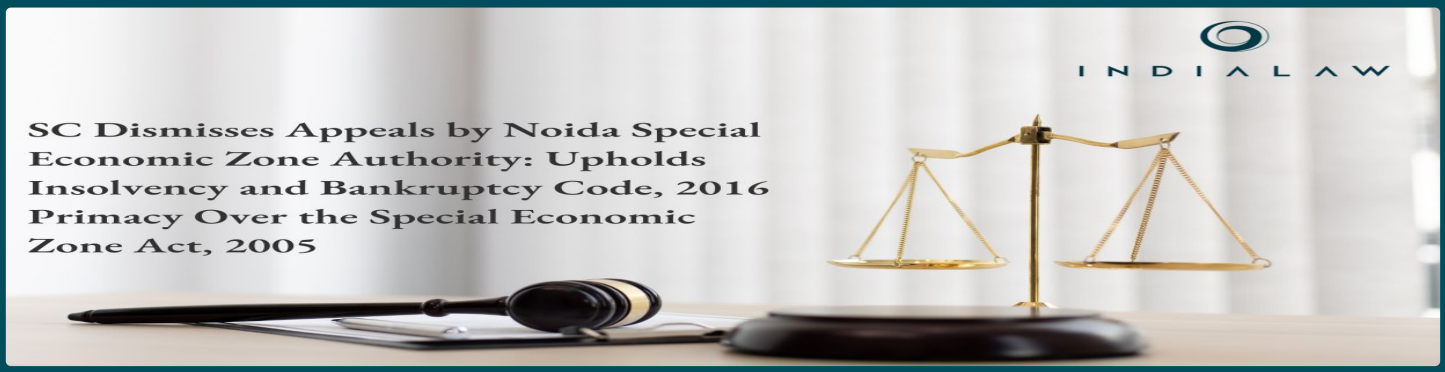
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SC Dismisses Appeals by Noida Special Economic Zone Authority: Upholds Insolvency and Bankruptcy Code, 2016 Primacy Over the Special Economic Zone Act, 2005

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In a landmark decision, the Supreme Court of India in Noida Special Economic Zone Authority (NSEZA) v. Manish Agarwal & Ors. upheld the approval of a resolution plan under the Insolvency and Bankruptcy Code (IBC), dismissing the appeals filed by the Noida Special Economic Zone Authority (NSEZA). The judgment reinforces the IBC's precedence over other statutes, including the Special Economic Zone Act, 2005 (SEZ Act) reinforcing the code's central role in insolvency and corporate debt restructuring in India.

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Background of the Case

The case arose when NSEZA sought to recover lease dues from Shree Bhoomika International Limited (Corporate Debtor), which defaulted on payments for a plot sub-leased to it in the Noida Special Economic Zone. This sub-lease, executed in 1995 for a period of 15 years, saw Shree Bhoomika International defaulting on payments by 1999 and ceasing all operations by 2003–2004. As a result, NSEZA filed a Corporate Insolvency Resolution Process (CIRP) under the IBC with the National Company Law Tribunal (NCLT) in 2019. The CIRP eventually led to the formation of a Committee of Creditors (CoC), with the Stressed Assets Stabilization Fund-IDBI (SASF-IDBI) as the sole financial creditor.

A resolution plan submitted by Commodities Trading, the Resolution Applicant, was approved by the CoC and allocated a payment of INR 50 lakhs to NSEZA against its claim of INR 6.29 crore. Both the NCLT and the National Company Law Appellate Tribunal (NCLAT) upheld the plan despite objections from NSEZA, leading the latter to escalate the case to the Supreme Court.

Key Issues Raised by NSEZA

1. Reduced Payment: NSEZA contended that the allocation of only INR 50 lakhs was insufficient against its admitted claim of INR 6.29 crore and sought full payment.

2. Auction Participation: NSEZA claimed it was not informed about the auction, thus affecting its opportunity to recover dues or participate in proceedings that could have influenced the financial recovery.

3. Valuation of Corporate Debtor: NSEZA disputed the valuation conducted by the appointed valuers, claiming that a physical inspection of the property was required but not performed.

4. Conflict with SEZ Regulations: NSEZA argued that certain exemptions given to the Resolution Applicant, especially regarding charges, penalties, and procedural requirements under SEZ rules, contradicted its legal obligations and compromised SEZ guidelines.

Supreme Court's Decision and Key Findings

1. Affirmation of CoC's Commercial Wisdom: The Supreme Court reaffirmed that the financial allocation within the resolution plan is based on the CoC's commercial judgment, which is not ordinarily open to judicial scrutiny. By law, the CoC has the exclusive authority to make decisions on the distribution of proceeds in a resolution plan, provided it complies with the IBC's provisions.

2. Validity of Valuation Process: NSEZA's objections regarding valuation were dismissed as the Court held that valuation issues are factual determinations best made by experts. The average of valuations provided by two independent valuers was deemed fair and in accordance with IBC regulations, which require no interference unless there is a clear procedural irregularity.

3. IBC's Overriding Effect on SEZ Act: A significant part of the Supreme Court's analysis addressed the question of whether IBC provisions supersede SEZ Act / rules, particularly when a conflict arises between the two. Under Section 238 of the IBC, the code has an overriding effect over any other law if there is an inconsistency. This section, the Court noted, empowers the IBC to prevail over other legal provisions, including the SEZ Act/rules. The Court observed that in instances where IBC and SEZ Act/ rules are in conflict, the former takes precedence to maintain the sanctity and purpose of insolvency proceedings under the code.

Rationale for IBC's Overriding Effect: The Court elaborated that the IBC's objective is to simplify and consolidate laws related to insolvency, ensuring the maximization of value for creditors while also preserving the debtor's business as a going concern. Allowing SEZ rules to interfere with the resolution process under IBC would hinder the uniform application of insolvency law, thereby disrupting the recovery mechanism designed by the code. In line with this reasoning, the Court held that NSEZA's claims related to SEZ rules and statutory dues, such as lease penalties, were extinguished once the resolution plan was approved.

4. Finality of the Resolution Plan: The Supreme Court observed that the resolution plan had already been implemented, with the INR 50 lakh payment to NSEZA disbursed via demand draft, which was received and accepted by NSEZA. This acceptance indicated closure on the transaction, reinforcing the principle that once a resolution plan is approved and implemented, it attains a finality that should not be disturbed, save for exceptional circumstances.

5. Rejection of NSEZA's Claims on SEZ Fee Exemptions: NSEZA objected to Clause 10.9 of the resolution plan, which provided certain exemptions regarding fees or penalties for renewal of sub-lease and transfer charges to the Resolution Applicant. However, the Court upheld this clause under Section 238 of the IBC, which pre-empts conflicting provisions in other laws, including those in the SEZ Act. The IBC's objective would be defeated if financial and administrative requirements were permitted to interfere with the CoC's decision-making process.

In its decision, the Supreme Court relied on several landmark cases that established key principles related to the IBC's supremacy, the role of the Committee of Creditors (CoC), and the finality of approved resolution plans. One significant case cited was *Committee of Creditors of Essar Steel India Ltd. v. Satish Kumar Gupta* (2020), where the Court emphasized that the CoC's commercial wisdom in approving or rejecting a resolution plan is paramount and generally beyond judicial scrutiny. The Court also referenced *Ghanashyam Mishra and Sons Pvt. Ltd. v. Edelweiss Asset Reconstruction Company Ltd.* (2021), which held that once a resolution plan is approved by the NCLT, all prior claims, including statutory dues, are extinguished unless specifically included in the plan. In *Maharashtra Seamless Ltd. v. Padmanabhan Venkatesh* (2020), the Court confirmed that valuations of assets, even if disputed, are factual determinations within the domain of the CoC and thus should not be interfered with. Further reinforcing the IBC's supremacy over conflicting laws, the Court referred to *K. Sashidhar v. Indian Overseas Bank* (2019), which highlights the IBC's overriding effect, especially in situations where other statutes may conflict with the objectives of the insolvency resolution framework. These cases collectively support the Court's stance on the IBC's primacy and the sanctity of the CoC's commercial decisions in insolvency proceedings.

Conclusion

The Supreme Court's ruling in Noida Special Economic Zone Authority v. Manish Agarwal & Ors. reaffirms the IBC's central role and authority in insolvency and restructuring matters. By asserting the code's primacy over the SEZ Act, the Court has strengthened the legal framework governing insolvency, ensuring that corporate restructuring and resolution plans are executed without obstruction from other statutes. This decision reinforces the CoC's authority in financial decisions and further consolidates IBC as the definitive legislation for insolvency in India, providing a critical precedent for future cases where statutory conflicts arise within insolvency proceedings.