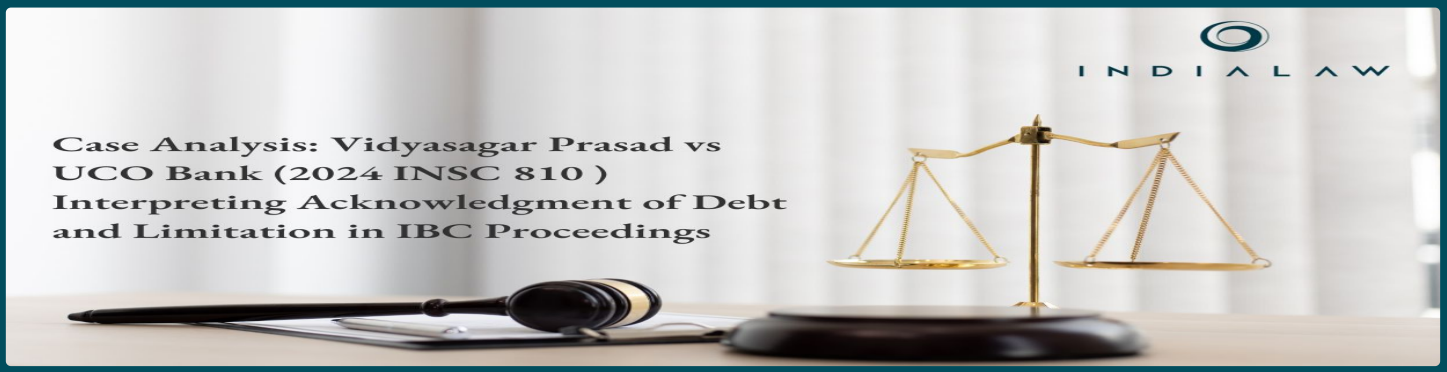
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Case Analysis: Vidyasagar Prasad vs UCO Bank (2024 INSC 810) Interpreting Acknowledgment of Debt and Limitation in IBC Proceedings

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Introduction

In Vidyasagar Prasad v. UCO Bank, the Supreme Court dismissed an appeal against the initiation of a Corporate Insolvency Resolution Process (CIRP) under Section 7 of the IBC. This appeal was filed by Vidyasagar Prasad, a suspended director of the Corporate Debtor, challenging both the NCLT's and the NCLAT's decisions to admit UCO Bank's application for CIRP. The judgment emphasises the crucial role of acknowledgment of debt in extending the limitation period and clarified how statutory balance sheet entries may constitute valid acknowledgments under Section 18 of the Limitation Act, thus renewing limitation for CIRP applications.

This article examines the judgment's interpretation of legal provisions, its application of precedent, and its broader implications for insolvency law.

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Case Background

The appeal emerged from UCO Bank's invocation of Section 7 of the IBC, aimed at initiating CIRP against the Corporate Debtor due to substantial loan defaults. The Corporate Debtor had previously availed credit from UCO Bank and other consortium banks to finance a thermal power project but subsequently defaulted. The Corporate Debtor's account was declared a Non-Performing Asset (NPA) on 5 November 2014. By 2019, UCO Bank filed a CIRP application based on the debtor's repeated acknowledgment of debt in financial statements, specifically balance sheets from 2017 and 2019.

The appellant challenged the CIRP application on three grounds: (1) that it was barred by limitation, (2) that the General Manager of the bank was not authorized to sign the application u/s7, IBC and (3) that the existence of an enforceable debt was disputed.

Legal Issues

The Supreme Court's judgment addressed the following issues:

1. **Applicability of Limitation to CIRP Applications**:

   Whether acknowledgment of debt in financial records is sufficient to extend the limitation period under Section 18 of the Limitation Act.

2. **Competency to File under Section 7 of IBC**:

   Whether UCO Bank's General Manager was appropriately authorized to file the CIRP application.

3. **Existence of a Valid Debt**:

   Whether there was an enforceable and recognized debt on the part of the Corporate Debtor that UCO Bank could invoke for CIRP.

Legal Analysis and Judicial Reasoning

1. Acknowledgment of Debt and Limitation Period

The crux of the appeal centered on whether the CIRP application was time-barred due to the lapse of limitation following the NPA declaration in 2014. The appellant argued that no explicit acknowledgment of debt was provided in the balance sheets, and hence the limitation should not have been extended.

The Supreme Court reaffirmed the application of Section 18 of the Limitation Act to insolvency cases, as incorporated into the IBC by Section 238A. This provision allows for the extension of the limitation period upon acknowledgment of debt by the debtor, which the Court held was evidenced through the Corporate Debtor's balance sheets and a One-Time Settlement (OTS) proposal dated 7 June 2016 submitted with the bank.

Citing Asset Reconstruction Co. v. Bishal Jaiswal (2021) and Dena Bank v. C. Shivakumar Reddy (2021), the Court emphasized that financial statements, particularly balance sheets, can constitute an acknowledgment of debt sufficient to extend the limitation period under Section 18 of the Limitation Act. The Court reasoned that while the Companies Act, 2013, mandates certain disclosures in balance sheets, these do not require the specification of each creditor, and such entries remain valid acknowledgments.

The Court concluded that the entries in the Corporate Debtor's balance sheets and the accompanying auditor's notes provided sufficient acknowledgment of the outstanding debt, thereby extending the limitation period.

2. Competency to File

The appellant's objection regarding the competency of UCO Bank's General Manager to file the CIRP application was dismissed. The Court found that the bank's internal authorization structure conferred full authority to the General Manager to act on behalf of UCO Bank in filing insolvency petitions. The Court appreciated the procedural compliance in the bank's authorization process and rejected the appellant's contention on this issue.

3. Existence of Debt

The Court dismissed the appellant's assertion that no enforceable debt existed, upholding the findings of the NCLT and NCLAT. The debt's existence was corroborated through credit agreements, the borrower's acknowledgment in balance sheets, and the Corporate Debtor's OTS proposal. The Court invoked the precedent in Lakshmirattan Cotton Mills Co. Ltd. v. Aluminium Corp. of India (1971), which held that an acknowledgment need not specify the precise nature of liability but must show a subsisting debtor-creditor relationship.

The Supreme Court ruled that the debtor's OTS proposal and balance sheet entries clearly demonstrated such a relationship and thus validated the existence of a debt due to UCO Bank.

Judgments Relied Upon

The judgment in Vidyasagar Prasad v. UCO Bank leaned on several landmark cases:

1. **Asset Reconstruction Co. v. Bishal Jaiswal** (2021): This case established that entries in balance sheets are valid acknowledgments under Section 18 of the Limitation Act, extending limitation in CIRP cases.
2. **Dena Bank v. C. Shivakumar Reddy** (2021): This ruling held that an acknowledgment of debt within the limitation period, including a one-time settlement offer, renews the limitation period for CIRP filings.
3. **Lakshmirattan Cotton Mills Co. Ltd. v. Aluminium Corp. of India** (1971): This case elucidated that an acknowledgment does not need to detail liability's character but should signify a subsisting relationship, thereby extending limitation.

Conclusion

The Supreme Court's judgment in Vidyasagar Prasad v. UCO Bank reaffirms the broad applicability of debt acknowledgment principles in the context of insolvency law. The Court's analysis strengthens creditor protections by clarifying that balance sheet entries and financial statements may be effective acknowledgments of debt under the IBC, thus renewing the limitation period under Section 18 of the Limitation Act.

This decision reinforces the principle that statutory financial records, provided they acknowledge outstanding liabilities, can substantiate a debt for insolvency proceedings. By consolidating judicial precedent and statutory interpretation, the ruling in Vidyasagar Prasad v. UCO Bank provides strong guidance for the interplay of limitation and debt acknowledgment under the IBC.

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