



DEBT RECOVERY

SARFAESI

Mandatory Fresh Valuation Under Rule 8(5) of the SARFAESI Rules: A Critical Analysis of the DRAT Allahabad Ruling in Punjab National Bank v. Prabal Roller Flour Mill

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The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (the SARFAESI Act) was enacted to empower secured creditors to recover dues without the intervention of civil courts, thereby ensuring expeditious resolution of non-performing assets. However, the statutory scheme is not without its procedural safeguards.

The **Security Interest (Enforcement) Rules, 2002**, framed thereunder, prescribe a careful framework governing the enforcement of security interest, including the valuation and sale of immovable secured assets.

A recent decision of the Debt Recovery Appellate Tribunal (DRAT), Allahabad, in *Punjab National Bank v. Prabal Roller Flour Mill and Ors.*, Appeal Dy. No. 55/2025, decided on 19 June 2026 by Mr. Justice R. D. Khare, Chairperson, brings into sharp focus the mandatory nature of Rule 8(5) of the Rules, 2002, and the consequences of failing to obtain a fresh valuation report prior to effecting the sale of secured property. This article examines the factual matrix, the rival submissions, the legal issues, and the Tribunal's analysis in this significant ruling.

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Factual Matrix and Procedural History

Initial SARFAESI Proceedings

The appellant, Punjab National Bank, had extended certain credit facilities to the respondents, Prabal Roller Flour Mill and others. By way of security for the said facilities, the borrowers had **mortgaged the property** in question through the deposit of original title deeds with the Bank.

Owing to the borrowers' failure to maintain financial discipline, the account was classified as a Non-Performing Asset (NPA) on 2 May 2021. Consequently, the Bank initiated proceedings under the SARFAESI Act by issuing a demand notice under Section 13(2) on 5 October 2021, followed by a possession notice under Section 13(4) on 10 January 2022.

The respondents challenged these measures by filing Securitization Application (S.A.) No. 312 of 2023 before the Debt Recovery Tribunal (DRT). This application was eventually dismissed as withdrawn, as the Bank had withdrawn the possession notice for some technical reason. The borrowers were granted liberty to approach the Bank for settlement, but they failed to avail of that opportunity.

Auction Attempts and Sale

Thereafter, the Bank issued a **fresh possession notice** under Section 13(4) of the SARFAESI Act on 29 December 2023. Following this notice, the Bank attempted to auction the mortgaged property on three separate occasions, all of which failed:

1. 10 January 2024
2. 4 March 2024

A fourth sale notice was issued on 18 June 2024, scheduling the auction for 23 July 2024. Two bidders participated in the auction, and the property was ultimately sold for a sum of **Rs. 302.80 lacs**.

The auction purchaser, Respondent No. 6, deposited the entire sale consideration, and the Bank issued a sale certificate on 5 August 2024, executed a sale deed in his favour, and handed over physical possession of the property.

Challenge Before the DRT

The respondents filed S.A. No. 646 of 2024 before the DRT, challenging the demand notice, the possession notice, and the sale notice dated 18 June 2024.

By its order dated 11 December 2024, the DRT partly allowed the application. It upheld the Bank's actions up to the stage of symbolic possession taken on 29 December 2023 but **set aside the auction sale notice** dated 18 June 2024 and all subsequent actions, including the auction sale conducted on 23 July 2024 and the sale certificate issued on 5 August 2024.

Aggrieved by the portion of the order that set aside the auction sale, the Bank filed the present appeal under Section 18 of the SARFAESI Act.

Rival Contentions Before the Appellate Tribunal

Submissions of the Appellant-Bank

The learned counsel for the appellant-Bank advanced several submissions:

- The Tribunal below had allowed the borrowers' application without applying its judicious mind.
- The Bank had obtained a **valuation report dated 4 September 2023**, and the sale conducted on 23 July 2024 was well within one year from the date of valuation.
- The auction purchaser had deposited the entire auction amount within the stipulated time, as evidenced by the sale certificate dated 5 August 2024.
- The entire SARFAESI action was in strict accordance with the provisions of the Act and the Rules made thereunder.

The Bank therefore prayed that the impugned order be set aside and the appeal be allowed.

Submissions of the Respondents-Borrowers

The learned counsel for the respondents-borrowers stoutly defended the DRT's order. The primary submission was that the Bank had failed to obtain a **fresh valuation report** of the immovable property after the issuance of the fresh possession notice dated 29 December 2023, as mandatorily required under Rule 8(5) of the Security Interest (Enforcement) Rules, 2002.

It was pointed out that:

- The valuation report dated 4 September 2023 had been obtained *prior to* the possession notice.
- The publication of the possession notice under Rule 8(2) had been done on 4 December 2023, even before the issuance of the possession notice dated 29 December 2023.
- The Bank had violated the settled norms and procedural requirements.

The borrowers argued that the appeal was premised on frivolous and non-existent grounds.

Submissions of the Auction Purchaser

The auction purchaser, Respondent No. 6, advanced an independent line of argument. He contended that he was a **bona fide purchaser** of the property, having no privity or connection with the underlying loan transaction.

It was submitted that the rights of a bona fide auction purchaser who has complied with Rule 9 of the Rules, 2002 cannot be disturbed in proceedings under Section 17 of the SARFAESI Act. Reliance was placed on the settled proposition of law that once a sale is completed, full consideration is paid, and the sale certificate is issued, the rights of the auction purchaser attain finality and cannot be lightly interfered with unless there is clear proof of illegality, which was absent in the present case.

Issues and the Tribunal's Analysis

The Central Controversy

The DRAT crystallized the central controversy as follows: whether the Tribunal below had rightly set aside the auction sale dated 23 July 2024 on the ground that the Bank had failed to obtain a **fresh valuation report from an approved valuer** at the appropriate time. The Tribunal also had to consider the interlinked question of whether the rights of a bona fide auction purchaser could override the procedural illegality, if any, committed by the secured creditor.

At the outset, the Tribunal noted that the borrowers had not challenged the portion of the DRT order that upheld the Bank's actions up to the symbolic possession taken on 29 December 2023. That part of the order had therefore attained finality. The main focus of the appellate inquiry was the validity of the auction sale itself.

Violation of Rule 8(5)

The Tribunal then turned to the statutory mandate. **Rule 8(5) of the Security Interest (Enforcement) Rules, 2002**, provides that before effecting the sale of immovable property, the authorized officer shall obtain a valuation of the property from an approved valuer and, in consultation with the secured creditor, fix the reserve price of the property.

The DRAT observed that in the present case, the Bank had obtained a valuation report from an approved valuer on 4 September 2023, which was *prior to* the taking of symbolic possession on 29 December 2023. The reserve price of Rs. 301.80 lacs, fixed for the sale notice dated 18 June 2024, was based on this very valuation report.

The Tribunal held that since the valuation report was obtained before the issuance of the fresh possession notice dated 29 December 2023, and the sale was effected thereafter, the Bank had failed to comply with the requirement of obtaining a fresh valuation before proceeding for sale. This constituted a **clear violation of Rule 8(5)**.

Temporal Gap Between Valuation and Auction

The Tribunal further fortified this conclusion by observing the temporal gap between the valuation and the auction. The valuation report dated 4 September 2023 and the auction conducted on 23 July 2024 were separated by a period of **more than nine months**.

The Tribunal took judicial notice of the well-established market principle that property values undergo a change at intervals of six months. It reasoned that had the Bank obtained a fresh valuation before proceeding with the sale, the property could have commanded a better price. The sale was therefore not conducted in accordance with the Act and the Rules, and the DRT was justified in setting it aside.

Rights of the Bona Fide Auction Purchaser

As regards the auction purchaser's contention, the Tribunal implicitly treated the violation of Rule 8(5) as a **fundamental procedural defect** that vitiated the entire sale process.

While the auction purchaser's rights as a bona fide purchaser were acknowledged in principle, the Tribunal's analysis ultimately prioritized strict compliance with the procedural safeguards embedded in the SARFAESI framework. The absence of a fresh valuation report was *not merely a technical irregularity* but a substantive breach that undermined the fairness and legality of the auction.

The Final Decision

In view of the foregoing discussion, the DRAT held that there was **no infirmity or illegality** in the impugned order passed by the DRT. The Tribunal below had correctly applied the law in setting aside the auction sale notice dated 18 June 2024 and the subsequent sale-related actions.

The appeal filed by Punjab National Bank was dismissed, with no order as to costs.

Concluding Observations

The decision of the DRAT Allahabad in *Punjab National Bank v. Prabal Roller Flour Mill and Ors.* is a salutary reminder that the SARFAESI Act, while designed to enable swift recovery by secured creditors, does not permit a cavalier approach to procedural mandates.

The key takeaways from this ruling are:

- **Rule 8(5) is mandatory, not directory** — it must be scrupulously observed before effecting the sale of immovable secured assets.

- A valuation report obtained *prior to* the issuance of a fresh possession notice cannot be relied upon to validate a subsequent auction sale, particularly when the intervening period renders the valuation stale.
- The rights of a bona fide auction purchaser, though protected under Rule 9 and settled Supreme Court jurisprudence, cannot insulate a sale tainted by a fundamental procedural illegality.

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