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Drawing the Line: NCLAT Clarifies the Boundary Between Debt Recovery and Insolvency Law in JS Steel Co. Ltd. and Amod Stampings Private Limited

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The dispute between JS Steel Co. Ltd. and Amod Stampings Private Limited[1] is not merely about unpaid invoices. It is a case that clarifies a critical boundary in Indian insolvency law: when a commercial dispute exists, the Insolvency and Bankruptcy Code (IBC) cannot be used as a recovery shortcut. The National Company Law Appellate Tribunal (NCLAT), in its April 2026 decision, reaffirmed that insolvency proceedings are not designed to adjudicate contractual disagreements, particularly those involving quality of goods.

The facts appear straightforward at first glance. A South Korean supplier agreed to supply electrical steel sheets to an Indian manufacturer under a purchase order issued in September 2021. The first two consignments were delivered and paid for. The third consignment, valued at approximately USD 353,534, reached Nava Sheva Port in October 2022 but was never cleared by the buyer, nor paid for.

However, the dispute did not originate with the third shipment. Its roots lay in complaints regarding the earlier consignments. In October 2022, Amod Stampings communicated that the supplied steel coils were severely rusted and unusable. These were not vague grievances; they were supported by inspection details, photographs, and explicit rejection of goods. The buyer requested replacement or issuance of a credit note, making it clear that the goods failed to meet acceptable standards.

These communications became central to the case. They were made well before any formal demand notice under the IBC was issued. This timing established that the dispute was not an afterthought or a defensive tactic, but a pre-existing and genuine disagreement.

What significantly weakened JS Steel's position was its own response to these complaints. Instead of outright denial, the supplier offered compensation initially at USD 100 per metric ton, later increasing to USD 550 per metric ton for a substantial portion of the goods. Such offers, while commercially pragmatic, were interpreted by the tribunal as acknowledgments of deficiency. Once such admissions exist on record, it becomes difficult to argue that no real dispute ever existed.

This brings us to the legal core of the case: the misuse of Section 9 of the IBC. The provision allows an operational creditor to initiate insolvency proceedings upon default in payment. However, Sections 8 and 9 collectively require that if a "pre-existing dispute" is raised by the debtor, the insolvency application must fail.

The governing standard for determining such disputes was laid down by the Supreme Court in the Mobilex Innovations case.

The tribunal is not required to decide whether the dispute will ultimately succeed. It must only assess whether the dispute is plausible, genuine, and supported by evidence not spurious or illusory. If that threshold is met, insolvency proceedings cannot proceed.

JS Steel attempted to overcome this by relying on Cost and Freight (CFR) INCOTERMS 2020. It argued that risk transfers to the buyer once goods are loaded at the port of shipment. Therefore, any damage discovered upon arrival in India should not affect payment obligations. It further contended that the buyer's filing of a Bill of Entry signified acceptance of the goods.

These arguments, while legally substantial, were not suitable for adjudication within insolvency proceedings. The NCLAT emphasized that such questions involve detailed examination of contractual terms, statutory protections under the Sale of Goods Act, and factual determinations regarding quality and inspection. These are matters for civil courts or arbitration, not for the summary mechanism of insolvency law.

The tribunal's reasoning reflects a consistent judicial approach: insolvency proceedings are not substitutes for debt recovery or contract enforcement. Their purpose is to address genuine financial distress, not to resolve commercial disputes involving performance, quality, or contractual interpretation.

Another important dimension of the judgment concerns the nature of the transaction. JS Steel argued that each shipment constituted an independent contract, and that disputes relating to earlier consignments should not affect payment for the third. The tribunal rejected this argument, noting that all consignments arose from a single purchase order. In commercial reality, such transactions are interconnected. A dispute regarding earlier deliveries can legitimately influence a buyer's willingness to accept subsequent goods.

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1. Company Appeal (AT) (Insolvency) No. 112 of 2026 ??

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