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INSOLVENCY & BANKRUPTCY

NCLAT Upholds CIRP Against Rana Kapoor-Linked Companies: Debt, Default and the Limits of Arbitration Challenges under the IBC

AUTHOR Abdullah Qureshi, Akriti Singhal

PUBLISHED 17 June 2026

Introduction

In a significant ruling that reinforces the creditor-friendly framework of the **Insolvency and Bankruptcy Code, 2016 (IBC)**, the National Company Law Appellate Tribunal (NCLAT) in ***Bindu Kapoor v. Sapan Mohan Garg (IRP) & Ors***.[1] dismissed appeals filed by Bindu Kapoor, suspended director of Bliss Abode Pvt. Ltd. and Bliss House Pvt. Ltd., and upheld the admission of insolvency proceedings against both companies.

The judgment addresses several important issues under insolvency law, including the validity of loan recall notices triggered by a "material adverse effect," the impact of pending challenges to arbitral awards, the relationship between execution proceedings and insolvency proceedings, and the **limitation period** for filing applications under Section 7 of the IBC.

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Background of the Dispute

The dispute arose from multiple **high-value loan facilities** granted by Indiabulls Housing Finance Limited to Bliss Abode Pvt. Ltd. and Bliss House Pvt. Ltd. between 2017 and 2019. Personal guarantees were provided by Rana Kapoor and Bindu Kapoor, while valuable immovable properties were mortgaged as security.

Following the **arrest of Rana Kapoor** in March 2020 and the commencement of criminal investigations against him, the lender invoked clauses relating to "material adverse effect" contained in the loan agreements. Consequently, loan recall notices dated 9 March 2020 were issued demanding immediate repayment of outstanding dues running into hundreds of crores.

When the borrowers failed to repay the recalled amounts, **arbitration proceedings** were initiated, culminating in arbitral awards in favour of the lender in February 2023. Subsequently, the debt was assigned to JC Flowers Asset Reconstruction Pvt. Ltd., which initiated insolvency proceedings under Section 7 of the IBC.

The National Company Law Tribunal (NCLT) admitted both petitions, prompting appeals before the NCLAT.

Key Arguments Raised by the Appellant

The appellant challenged the **insolvency proceedings** on multiple grounds:

1. There was no actual payment default by the corporate debtors at the time the loans were recalled. Interest obligations were being serviced and the principal amounts had not yet become due.
2. The arrest of a personal guarantor could not automatically constitute a **"material adverse effect"** justifying loan recall.
3. The arbitral awards relied upon by the financial creditor had not attained finality because challenges under Section 34 of the Arbitration and Conciliation Act, 1996 were pending before the Delhi High Court.
4. The insolvency applications were merely an attempt to execute arbitral awards through the IBC, which would amount to misuse of the insolvency mechanism as a debt recovery tool.

5. Limitation objections were raised on the ground that the original default allegedly occurred in March 2020, whereas the Section 7 applications were filed much later.

NCLAT's Analysis

Material Adverse Effect and Loan Recall

One of the most important aspects of the judgment is the Tribunal's interpretation of the **"material adverse effect" clause**.

The loan agreements empowered the lender to declare an event of default whenever circumstances arose that could adversely affect the ability of borrowers or guarantors to perform their obligations. The definition of "obligors" expressly included guarantors.

The Tribunal observed that Rana Kapoor was a prominent promoter facing serious criminal investigations and arrest, not merely a guarantor. In such circumstances, the lender's assessment that these developments adversely affected the repayment capacity of the obligors could not be regarded as arbitrary.

The NCLAT therefore upheld the **validity of the loan recall notices** and held that the lender had acted within the contractual framework agreed upon by the parties.

Pending Section 34 Challenge Does Not Defeat Section 7 Proceedings

The appellant argued that since the arbitral awards were under challenge before the Delhi High Court, the debt had not crystallised and insolvency proceedings were premature.

The Tribunal rejected this contention. It noted that the **Section 7 applications were not founded solely upon the arbitral awards**. The primary default arose when the borrowers failed to comply with the loan recall notices issued in March 2020. The arbitral awards merely constituted an additional piece of evidence confirming the existence of debt and default.

Therefore, even if the awards were under challenge, the underlying default remained unaffected.

This finding reinforces the principle that insolvency proceedings are not dependent upon the **finality of arbitral awards** when independent evidence of default exists.

IBC Is Not Merely an Execution Mechanism

The appellant further argued that the financial creditor was attempting to use insolvency proceedings as a substitute for execution proceedings already pending before the Delhi High Court.

The NCLAT distinguished the precedents relied upon by the appellant and observed that the facts of the present case were materially different. The Tribunal emphasised that **more than six years had elapsed** without repayment of the debt.

The insolvency proceedings were therefore not a disguised execution action but a legitimate attempt to resolve financial distress under the IBC framework.

The judgment reiterates the distinction between **recovery proceedings and insolvency proceedings**. While the former seek repayment, the latter focus on resolution of the corporate debtor as a going concern.

Debt and Default Remain the Central Inquiry

The NCLAT relied heavily on recent Supreme Court decisions clarifying the scope of Section 7 proceedings.

Referring to judgments such as ***Power Trust v. Bhuvan Madan***[2] and ***Elegna Co-operative Housing & Commercial Society Ltd. v. Edelweiss Asset Reconstruction Co. Ltd***[3]., the Tribunal reaffirmed that once the existence of financial debt and default is established, **admission of a Section 7 application ordinarily follows**.

The Tribunal observed that the adjudicating authority is not expected to undertake a detailed examination of equitable considerations or assess the overall financial health of the corporate debtor. Its inquiry is limited to determining whether a **financial debt** exists and whether default has occurred.

Arbitral Awards and Fresh Limitation Period

Another important issue addressed was **limitation**.

The Tribunal relied upon the Supreme Court's decisions in ***Dena Bank v. C. Shivakumar Reddy***[4] and ***Kotak Mahindra Bank v. A. Balakrishnan***[5] to hold that an arbitral award gives rise to a **fresh cause of action**.

Since the arbitral award was passed on 28 February 2023 and the insolvency applications were filed within three years thereafter, the proceedings were clearly within limitation.

This finding further strengthens the principle that **adjudicated debts** provide creditors with an independent basis to initiate insolvency proceedings within a fresh limitation period.

Significance of the Judgment

The decision is significant for several reasons:

- It confirms that lenders may validly invoke **"material adverse effect" clauses** where circumstances objectively threaten repayment capacity, even before conventional payment defaults occur.
- It clarifies that a pending challenge to an arbitral award under Section 34 does not automatically bar insolvency proceedings when **debt and default** are otherwise established.
- It reinforces the Supreme Court's recent trend of narrowing the scope of discretionary refusals under Section 7 and restoring the centrality of the **debt-and-default test**.
- It reiterates that insolvency proceedings can coexist with other legal remedies, including arbitration, execution proceedings, **SARFAESI actions**, and other enforcement mechanisms.

Conclusion

The NCLAT's ruling in ***Bindu Kapoor v. Sapan Mohan Garg (IRP) & Ors***. is a powerful reaffirmation of the foundational principles of the IBC. The Tribunal made it clear that once a financial creditor demonstrates the existence of debt and continuing default, insolvency proceedings cannot be defeated merely because parallel arbitration challenges or execution proceedings are pending.

For lenders, the judgment strengthens confidence in the **enforceability of contractual default provisions** and the availability of insolvency remedies. For corporate debtors, it is a reminder that insolvency courts will focus primarily on debt and default rather than collateral disputes surrounding arbitral awards or recovery proceedings.

The decision thus contributes to the evolving jurisprudence that seeks to preserve the IBC as a **resolution-focused statute** while ensuring that it remains an effective mechanism for addressing genuine cases of financial distress.

References

[1] (2026) ibclaw.in 742 NCLAT

[2] 2026 SCC OnLine SC 248

[3] 2026 SCC OnLine SC 82

[4] (2021) 10 SCC 330

[5] (2022) 9 SCC 186

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