



INSOLVENCY & BANKRUPTCY

The Interplay of Commercial Consistency and Undervalued Transactions: An Analysis of the NCLT Kochi Bench Judgment in Piyush Kisanlal Jani v. Chuzattil Naryanana Manoj

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PUBLISHED 26 May 2026

The Insolvency and Bankruptcy Code, 2016, envisages a strong mechanism for the maximization of the value of the assets of a corporate debtor, empowering the resolution professional to seek the avoidance of inherently detrimental transactions. Among these, undervalued transactions under Section 45 form a critical category, requiring careful judicial scrutiny to differentiate between legitimate commercial distress and malicious asset stripping. A recent and illuminating exposition of this dichotomy was delivered by the National Company Law Tribunal, Kochi Bench, in the matter of *Piyush Kisanlal Jani (RP) v. Chuzattil Naryanana Manoj and Anr.* (IA (IBC)/141/KOB/2025 in CP(IBC)/10/KOB/2024), decided on May 8, 2026. This article examines the factual matrix, the rival legal contentions, and the profound legal reasoning adopted by the Adjudicating Authority in resolving the complexities surrounding alleged undervalued transactions, statutory limitation periods, and the joinder of necessary parties.

The factual genesis of the dispute traces back to the admission of the corporate debtor, Pelican Biotech and Chemicals Labs Private Limited, into the Corporate Insolvency Resolution Process on May 28, 2024. Following the statutorily mandated assumption of management, the resolution professional appointed Sidharth Gupta & Company, a firm of chartered accountants, to conduct a comprehensive transaction audit. The consequential audit report, dated March 7, 2025, formed the bedrock of the resolution professional's application. The report alleged that the suspended directors of the corporate debtor had orchestrated transactions during the look-back period that were fundamentally undervalued, thereby violating the provisions of Section 45 of the Insolvency and Bankruptcy Code.

The core of the allegation cantered upon the sale of a specialized product, "COMPOSORB 100 LTR", to a related entity, M/s Pelican Kenterra Private Limited. It was highlighted by the transaction auditor that the suspended management supplied this product to the related party at a mere Rs. 300 per unit. In stark contrast, identical goods were purportedly sold to independent third parties at a significantly higher rate of approximately Rs. 862 per unit. Consequently, the resolution professional alleged a quantifiable loss of Rs. 5.56 lakhs to the corporate debtor, prompting the filing of an application seeking a declaration of these transactions as undervalued and demanding restitution from the suspended directors.

Predicated on these findings, the resolution professional contended before the Adjudicating Authority that the stark price differential unmistakably demonstrated an intent to confer an undue financial benefit upon a related party at the direct expense of the corporate debtor's creditors. It was vehemently argued that these transactions fell squarely within the relevant look-back period prescribed under Section 46 of the Code and inherently fulfilled all statutory ingredients required for avoidance. During the course of the proceedings, the applicant also raised a fierce procedural objection against the respondents for introducing arguments in their written submissions that were purportedly absent from their initial pleadings, characterizing this as a strategic afterthought intended to malign the resolution professional and derail the adjudication.

In strong opposition, the suspended directors mounted a complex defence, challenging both the maintainability of the application and its substantive merits. On a preliminary footing, the respondents invoked the bar of limitation, asserting that the application was afflicted by an inordinate delay of 164 days. They argued that the resolution professional had brazenly bypassed the strict timelines mandated by Regulation 35A of the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2016, without ever seeking a formal condonation of delay under Section 5 of the Limitation Act, 1963. Parallely, a procedural objection was raised regarding the non-joinder of M/s Pelican Kenterra Private Limited. The respondents asserted that as the direct beneficiary of the impugned transactions, the related party was a necessary entity without whose presence no effective legal order could be passed.

Transitioning to the substantive merits, the respondents provided a compelling commercial justification for the pricing model. They elucidated that the transactions were executed at arm's length in the ordinary course of business. It was brought to the Tribunal's attention that the intellectual property and patent for the product "Composorb" were personally held by the suspended directors, who had voluntarily permitted the corporate debtor to utilize it. This arrangement purportedly generated a lucrative fifty percent gross margin and a five percent royalty for the corporate debtor, heavily evidencing an intent to sustain rather than siphon from the business. Relying on the Supreme Court's jurisprudence in *R. Dinesh v. Arvind Mills Ltd.*, they maintained that such intellectual property commercialization fell within the protected scope of legitimate business judgment.

The most devastating blow to the applicant's case, however, emerged from the respondents' reliance on the resolution professional's own conduct during the corporate insolvency resolution process. The respondents directed the Tribunal's attention to the stock registers and books of account, which irrefutably demonstrated that the resolution professional, while managing the corporate debtor as a going concern, had continued to supply the exact same product to M/s Pelican Kenterra Private Limited at an identical price bandwidth of Rs. 300 to Rs. 400 per unit. The respondents argued that it was fundamentally incongruous for

the resolution professional to legally assail a pricing structure as fraudulently undervalued when he had commercially adopted and perpetuated the very same structure during his tenure.

The National Company Law Tribunal carefully dissected these rival contentions, sequentially addressing the procedural and substantive hurdles. Addressing the limitation objection, the Tribunal drew heavy reliance on the authoritative pronouncement of the National Company Law Appellate Tribunal in *Aditya Kumar Tibrewal v. Om Prakash Pandey*. The Adjudicating Authority reaffirmed the established legal position that the timelines prescribed under Regulation 35A are inherently directory and procedural, rather than strictly mandatory. The Tribunal emphasized that a mere procedural delay by the resolution professional cannot be allowed to arbitrarily extinguish the substantive statutory rights enshrined in the Code for the avoidance of undervalued transactions. Consequently, the plea of limitation was outrightly dismissed.

Further, the Tribunal dispensed with the objection concerning the non-joinder of the related party. Invoking the jurisprudential distinction between a 'necessary party' and a 'proper party' as crystallized in *Mumbai International Airport Pvt. Ltd. v. Regency Convention Centre & Hotels Pvt. Ltd.*, the Tribunal reasoned that the application was primarily directed against the erstwhile management for the restitution of value. Since no independent adverse order or decree was sought directly against M/s Pelican Kenterra Private Limited, it was deemed merely a proper party, the absence of which would not legally vitiate the maintainability of the proceedings. The Tribunal also graciously permitted the respondents' reliance on the resolution professional's continued transactions, noting that this was not a fresh cause of action but a legitimate factual deduction drawn directly from the existing books of the corporate debtor.

On the substantive touchstone of Section 45, the Tribunal delivered a profoundly pragmatic analysis. The Adjudicating Authority observed that the resolution professional is statutorily bound to act in a commercially prudent manner to preserve the corporate debtor as a going concern. The fact that the resolution professional found it commercially viable to continue supplying the product to the related party at the historical rates strongly militated against the allegation of undervaluation. The Tribunal noted that an isolated higher external benchmark of Rs. 862 per unit cannot operate in a vacuum to criminalize a consistent, long-standing commercial arrangement. The pricing adopted before the insolvency commencement date was carried forward into the insolvency period, which showed a commercially accepted mechanism rather than a distorted or artificial reduction in value meant to defraud creditors.

The Adjudicating Authority concluded that the continuous and unvarying transaction pattern completely negated the existence of any deliberate intent to prejudice the creditors or siphon funds from the corporate debtor. Finding no merit in the allegations, the Tribunal decisively dismissed the application filed by the resolution professional. This judgment stands as a crucial precedent in insolvency jurisprudence, serving as a powerful reminder that avoidance applications cannot be mechanically filed on the basis of theoretical price variances. It reinforces the principle that the commercial realities of a business, particularly the consistency of pricing structures and the independent business judgments of the management, must be holistically evaluated before affixing the severe label of an undervalued transaction under the Insolvency and Bankruptcy Code.

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