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Default, Debt, and the Limits of Judicial Discretion: The Supreme Court’s Ruling in Power Trust v. REC Ltd.

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Introduction

The judgment rendered by the Supreme Court of India in the matter arising from the insolvency proceedings against Hiranmaye Energy Ltd.[1] constitutes a significant pronouncement on several foundational principles of the Insolvency and Bankruptcy Code, 2016 (hereinafter 'the Code' or 'IBC'). The case, brought before the apex court at the instance of Power Trust the promoter of Hiranmaye Energy Ltd. arose as a challenge to the initiation of the Corporate Insolvency Resolution Process ('CIRP') by REC Ltd., a financial creditor. The Supreme Court's ruling, affirming the admission of the insolvency petition and declining to interfere with the commercial decisions of the Committee of Creditors ('CoC'), has reinforced and clarified the interpretive framework governing Section 7 of the IBC, the temporal scope of Section 10A, the legal consequence of failed loan restructuring, and the institutional autonomy of the CoC. This article undertakes a comprehensive examination of the factual matrix, the legal contentions advanced by each party, and the ratio decidendi and obiter dicta emerging from the judgment.

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Factual Background and Corporate History

Hiranmaye Energy Ltd. is a power generation company incorporated for the purpose of developing and operating a thermal power plant in the State of West Bengal. The financial architecture of the project was premised upon substantial debt financing sourced from various institutional lenders, including REC Ltd. The aggregate quantum of credit facilities extended to the corporate debtor ran into several thousand crore rupees.

In the ordinary course of events, the company's financial position deteriorated progressively, attributable in part to sectoral challenges endemic to the Indian power sector, including tariff disputes, fuel supply constraints, and demand fluctuations. The account of Hiranmaye Energy Ltd. was ultimately classified as a Non-Performing Asset (NPA) in the year 2018, marking the commencement of the company's formal default and signifying the failure to service its debt obligations in accordance with the agreed repayment schedule. This classification and the underlying payment failure constituted the seminal event from which the subsequent legal proceedings emanated.

The Abortive Loan Restructuring of 2020

In 2020, in an apparent attempt to revive the financial viability of the corporate debtor and avoid the initiation of insolvency proceedings, the consortium of lenders, including REC Ltd., entered into negotiations with the company's promoters for the restructuring of the outstanding debt. A restructuring arrangement was formulated, the terms of which envisaged a modified repayment schedule and an extended moratorium on debt servicing obligations. On its face, this arrangement appeared to afford the corporate debtor an avenue to rehabilitate its finances without the stigma and consequences of formal insolvency proceedings.

However, the restructuring arrangement was not unconditional. It was expressly made subject to the fulfilment of certain specified pre-conditions by Hiranmaye Energy Ltd. These conditions, which were presumably negotiated in good faith between the parties, were intended to ensure that the company demonstrated a minimum threshold of financial credibility and operational

commitment before the restructuring terms became contractually operative and binding upon the lenders. The critical legal consequence of this conditionality was that, in the absence of satisfaction of the stipulated conditions, the restructuring arrangement could not and did not come into legal force.

The corporate debtor failed to comply with the requisite conditions. As a result of this failure, the restructuring never attained legal efficacy. The lenders were not bound by its terms, and the original loan agreements with the default crystallised in 2018 continued to govern the juridical relationship between the parties. This factual finding proved to be of decisive significance in the appellate proceedings before the Supreme Court.

Initiation of CIRP and the Contentions of the Corporate Debtor

Given the persistent default and the failure of the restructuring initiative, REC Ltd. filed an application before the National Company Law Tribunal ('NCLT') under Section 7 of the IBC for the initiation of the CIRP against Hiranmaye Energy Ltd. Section 7 permits a financial creditor to apply for the commencement of insolvency proceedings where it can demonstrate the existence of a financial debt owed to it by the corporate debtor and a default in respect of that debt. Upon satisfaction of these two conditions, the Code mandates admission of the application.

Hiranmaye Energy Ltd., through its promoter Power Trust, resisted the admission of the petition on multiple grounds. The primary legal defence invoked by the corporate debtor was the protection afforded by Section 10A of the IBC, which was introduced as a legislative response to the economic disruptions occasioned by the COVID-19 pandemic. Section 10A suspended the right of creditors to file insolvency applications in respect of defaults occurring between 25 March 2020 and 25 March 2021. The corporate debtor contended that, consequent upon the restructuring arrangement of 2020, the relevant date of default had been effectively reset and now fell within the protected window prescribed under Section 10A, thereby rendering the Section 7 application non-maintainable.

In addition to the Section 10A defence, the corporate debtor also urged the tribunal to exercise its discretion and decline admission on the ground of its financial viability. It placed reliance upon the presence of a long-term Power Purchase Agreement ('PPA') and its ongoing generation and revenue operations as evidence that the company retained the capacity for rehabilitation. In this connection, the corporate debtor invoked the Supreme Court's ruling in Vidarbha Industries Power Ltd. v. Axis Bank Ltd.[2], wherein the apex court had, on the specific facts of that case, held that the adjudicating authority possesses a degree of discretion in the matter of admitting Section 7 applications.

The Supreme Court's Analysis and Legal Holdings

A. The Date of Default and the Inapplicability of Section 10A

The Supreme Court categorically rejected the contention that the date of default had been novated or altered by the 2020 restructuring arrangement. The Court affirmed the foundational factual position that the corporate debtor's default had crystallised in 2018, upon the classification of the account as an NPA, which was a date substantially predating the COVID-19 protection period commencing on 25 March 2020. The Court examined the terms and circumstances of the restructuring arrangement and held, consistent with established principles of contract and banking law, that an agreement conditioned upon the fulfilment of certain prerequisites cannot be treated as having come into force unless and until those prerequisites are demonstrably satisfied.

Since the corporate debtor had failed to perform the conditions precedent to the restructuring arrangement's operability, the arrangement never attained legal force. The original loan agreements, reflecting the default of 2018, remained the governing instruments. Accordingly, the Supreme Court held that Section 10A of the IBC had no application to the facts of the present case. The relevant date of default was 2018, which fell entirely outside the temporal ambit of the statutory moratorium. The Section 10A defence advanced by the corporate debtor was therefore legally untenable and was dismissed.

B. The Mandatory Nature of Admission Under Section 7

On the question of whether the adjudicating authority possesses any discretion to decline admission of a Section 7 petition upon proof of financial debt and default, the Supreme Court delivered an important clarification. The Court reaffirmed that the adjudicating authority's jurisdiction under Section 7 is, as a matter of general principle, circumscribed to the verification of two constituent elements: the existence of a financial debt and the occurrence of a default. Once both elements are established to the satisfaction of the adjudicating authority, the statute mandates admission of the application. There is no residual discretion

vested in the tribunal to refuse admission on the basis of an assessment of the corporate debtor's financial viability, operational performance, or future prospects.

In addressing the corporate debtor's reliance on the Vidarbha Industries judgment, the Court was careful to contextualise and confine the scope of that ruling. The Court held that the Vidarbha decision was specifically grounded in the exceptional and peculiar facts of that case and was not intended to lay down a general proposition of law conferring an open-ended discretion upon adjudicating authorities to weigh commercial considerations in deciding whether to admit Section 7 applications. Any contrary interpretation would be inconsistent with the general framework and legislative intent underlying the IBC, which prioritises the timely resolution of insolvency and the protection of creditors' interests. In the present case, the financial debt owed to REC Ltd. exceeded rupees three thousand crore, and the default was clearly established. The admission of the CIRP was therefore legally correct and was upheld.

C. The Autonomy of the Committee of Creditors

A recurring feature of the litigation was the persistent endeavour by the promoter, Power Trust, to interject alternative settlement proposals at successive stages of the proceedings. It is germane to note that the Committee of Creditors, constituted upon the commencement of the CIRP, had in due course evaluated competing resolution plans and, by the requisite supermajority, approved the resolution plan submitted by an identified resolution applicant. The promoter continued to press its own proposals, asserting that the terms it offered were superior to those enshrined in the approved resolution plan.

The Supreme Court firmly declined to entertain any challenge to the CoC's commercial decision. The Court reiterated the well-settled principle that decisions of the Committee of Creditors, being inherently commercial in nature and reposed within the domain of creditor wisdom, are not amenable to judicial review on the merits. The CoC's decision to approve a particular resolution plan, made in the exercise of its commercial judgment and by a supermajority vote, reflects the collective assessment of the financial creditors as to the best available outcome for the resolution of the corporate debtor's insolvency. Courts and tribunals are not competent to substitute their own assessment for that of the CoC in such matters.

The Court further observed that any withdrawal of the insolvency proceedings at that juncture would have required the approval of at least ninety per cent of the voting share of the CoC, as mandated under Section 12A of the IBC. No such approval had been obtained or was forthcoming. In the absence of the requisite CoC consent, the Court had no jurisdiction to compel a settlement or to forestall the implementation of the approved resolution plan. The promoter's settlement overtures were accordingly rejected.

The Final Order and Consequential Directions

The Supreme Court dismissed the appeal filed by Power Trust in its entirety and directed that the Corporate Insolvency Resolution Process in respect of Hiranmaye Energy Ltd. shall proceed and be implemented in accordance with the approved resolution plan. In a notable consequential direction, the Court addressed the disposition of a sum of rupees one hundred and twenty-five crore that had been deposited during the pendency of the appeal. The Court declined to release the said amount to another creditor who had sought its transfer and instead directed that the sum be returned to the appellant. This direction, while peripheral to the core legal questions decided by the Court, highlights the apex court's careful attention to the financial equities attending the litigation.

Legal Significance and Broader Implications

The judgment in the Hiranmaye Energy litigation carries significance on multiple planes of insolvency jurisprudence. First, it authoritatively establishes that a conditional restructuring arrangement that fails for non-fulfilment of its conditions does not extinguish, suspend, or modify the original date of default for the purposes of the IBC. Creditors and corporate debtors alike must therefore approach restructuring negotiations with a clear appreciation of the legal consequences of failed conditions precedent.

Second, the judgment reinforces the mandatory and determinative character of the Section 7 inquiry. By confining the Vidarbha Industries ruling to its particular facts, the Supreme Court has arrested any tendency towards the expansion of adjudicating authority discretion in admission proceedings, thereby upholding the legislative scheme's emphasis on speed, predictability, and creditor protection. The insolvency mechanism cannot be defeated by assertions of commercial viability that have not been translated into actual debt repayment.

Third, and perhaps most importantly from an institutional standpoint, the judgment powerfully reaffirms the sacrosanct nature of the CoC's commercial judgment. The insolvency resolution process under the IBC is premised upon the primacy of creditor

decision-making. Judicial intervention in CoC decisions must remain exceptional, confined to manifest illegality or procedural impropriety, and must never extend to a de novo evaluation of the commercial wisdom underlying a resolution plan. The promoter's persistent settlement overtures, while understandable from a stakeholder perspective, could not overcome the legal architecture that reserves final resolution authority to the creditor collective.

Conclusion

The Supreme Court's judgment in Power Trust v. REC Ltd. arising from the insolvency of Hiranmaye Energy Ltd. is a comprehensive restatement and clarification of foundational IBC principles. It confirms that the date of default is determined by reference to actual and legally effective obligations, not by the aspirational terms of a restructuring arrangement that never attained contractual force. It reasserts that Section 10A's COVID-era protections are temporally precise and cannot be extended by contractual artifice. It reaffirms that Section 7 admission is a legal consequence flowing from proof of debt and default, not a matter of judicial discretion calibrated to commercial desirability. And it upholds with unequivocal clarity the institutional autonomy of the Committee of Creditors in its resolution decision-making.

These propositions, taken together, reinforce the systemic integrity of the Indian insolvency framework and send a clear signal to promoters, corporate debtors, and their advisers: the insolvency process, once legitimately triggered by a crystallised default, follows its prescribed course, and the commercial resolution of that process rests with the creditors, not the courts.

For more details, write to us at: **contact@indialaw.in**

1. In Power Trust Vs. Bhuvan Madan & Ors. – CIVIL APPEAL NO(s).2211/2024 (Also, 2026 INSC 166) ??
2. (2022) 8 SCC 352 ??

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