



SARFAESI

Madras HC Rules Technical Lapses Cannot Vitiate SARFAESI Auction Sale: A Guide to Rule 9 Validity

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Introduction

The Madras High Court, in *M/s Lucky Footwear Components & Ors. v. Indian Bank & Ors*^[1] reaffirmed the limited scope of judicial interference under Article 227 of the Constitution of India in cases arising from the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act). The Division Bench held that technical irregularities in the auction process cannot vitiate a valid sale unless borrowers demonstrate substantial prejudice, fraud or collusion.

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Factual Background

The petitioners, M/s Lucky Footwear Components, represented by its partners had availed financial facilities from Indian Bank. Upon default in repayment, the bank initiated, recovery proceedings under the SARFAESI Act. A notice under Section 13(2) was issued, followed by symbolic possession under Section 13(4). The bank thereafter conducted a public auction on 10 August 2022, where the secured asset was sold, and a sale certificate was issued on 25 August 2022. Aggrieved by the enforcement actions, the borrowers approached the Debts Recovery Tribunal-II (DRT-II), Chennai, by filing a Securitisation Application (TSA No. 34 of 2023). The Tribunal dismissed their plea, upholding the bank's actions. The Debt Recovery Appellate Tribunal (DRAT), Chennai, in appeal (RA (SA) No. 55 of 2023), also affirmed the DRT's decision. The borrowers then invoked Article 227 of the Constitution before the High Court, seeking to set aside the DRAT's order and challenge the legality of the auction.

Issues Before the Court

The primary issues before the High Court were:

1. Whether the sale notice issued by the bank complied with the mandatory notice period prescribed under Rule 9 of the Security Interest (Enforcement) Rules, 2002.
2. Whether the sale notice contained adequate description of the property.
3. Whether the valuation report used for fixing the reserve price was valid and in accordance with applicable guidelines.
4. Whether the bank had failed to consider objections under Section 13(3A) of the SARFAESI Act.
5. Whether the classification of the petitioners' loan account as Non-Performing Asset (NPA) was valid.
6. The extent of the High Court's jurisdiction under Article 227 to interfere with concurrent findings of the DRT and DRAT.

Court's Observations

The Court carefully examined each contention. On the issue of notice, it was observed that the auction was conducted on the 15th day after publication of the sale notice, satisfying the requirement of "not less than fifteen days" under Rule 9. The Court clarified that the law does not require "clear days" and thus, the sale notice was legally valid. Regarding the alleged defect in property description, the Court held that the notice sufficiently detailed the survey numbers, plot boundaries, measurements, and ownership details, leaving no ambiguity regarding the subject property. On valuation, the Court noted that the property was appraised by an approved valuer registered under Section 34AB of the Wealth Tax Act, 1957. The borrower's contention that the valuation was based on an outdated report was rejected since the one-year guideline was only directory and not statutory. The Court emphasized that unless borrowers demonstrate material prejudice due to under-valuation, minor deviations from internal policies cannot invalidate an auction.

The Court further held that the borrowers' letter dated 23 June 2021 was not an "objection" within the meaning of Section 13(3A) but rather a request for extension and waiver of penalty, which was adequately addressed by the bank's reply dated 31 July 2021. Concerning the classification of the loan account, the Court observed that the borrowers were classified as SMA-2 accounts, and therefore, ineligible for the COVID-19 additional 20% loan facility. Since this issue was not raised before the DRT or DRAT, it could not be entertained for the first time under Article 227. Relying on the Supreme Court's ruling in *Celir LLP v. Sumati Prasad Bafna & Ors.*^[2], the Court reiterated that auction sales once concluded cannot be lightly interfered with, unless tainted by fraud, collusion, or gross underpricing. Technical irregularities that cause no substantial injury cannot form the basis for setting aside a sale.

Judgment

In a reasoned order, the Division Bench dismissed the Civil Revision Petition, affirming the validity of the auction and the findings of both Tribunals below. The Court underscored that its jurisdiction under Article 227 is supervisory, not appellate, and cannot be invoked to reappreciate factual findings unless the same are perverse or contrary to law. Relying heavily on the Supreme Court's precedent in *Celir LLP v. Sumati Prasad Bafna & Ors.*, the Court reiterated that once an auction sale has been concluded and confirmed, it cannot be interfered with lightly except where it is shown to be collusive, fraudulent, or vitiated by material procedural irregularities.

The Court observed that mere deviations from non-mandatory guidelines or alleged undervaluation cannot undermine the finality of a public auction. The Bench concluded that the borrowers failed to establish any fundamental illegality, fraud, or prejudice, and hence, no ground existed for judicial interference. The petition was accordingly dismissed without costs, and all connected interim applications were closed.

Conclusion

This decision reinforces the principle that minor technical lapses or procedural deviations in the SARFAESI process cannot invalidate an auction sale in the absence of substantial prejudice or fraud. The judgment highlights the limited scope of Article 227 jurisdiction and is a caution to borrowers that challenges to concluded auctions must rest on concrete evidence of illegality or mala fide conduct. For banks, the ruling reaffirms that compliance with statutory requirements and reliance on approved valuers will insulate recovery actions from judicial interference. The *Lucky Footwear Components* judgment thus upholds the integrity of SARFAESI auctions and the finality of sales conducted in accordance with law.

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

^[1] C.R.P.No.5237 of 2025 and C.M.P.No.26403 of 2025

^[2] 2024 Supreme (SC) 1187 :: 2025 1 MLJ 193

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