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SARFAESI

Enforcement of Security Interests Against Educational Institutions: Supreme Court Mandates Strict Compliance Under the SARFAESI Act

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Introduction

The intersection of statutory debt recovery and the socio-educational interests of students frequently presents complex challenges before the judiciary. The legislative intent behind the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002, is to ensure the expeditious recovery of non-performing assets by secured creditors. However, when the secured asset encompasses a functioning educational institution, courts must delicately balance the strict enforcement of financial laws against the academic welfare of enrolled students. In a recent and decisive ruling, the Supreme Court of India addressed this precarious balance, establishing a firm precedent that student welfare cannot be weaponized by defaulting school managements to perpetually circumvent the rule of law, evade statutory liabilities, and defy judicial orders.

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Factual Matrix and Case Details

The controversy was comprehensively adjudicated by a two-judge bench of the Supreme Court comprising Justices Dipankar Datta and Satish Chandra Sharma in the matter of *Chaitanya Bahuuddeshiya Shikshan Prasarak Mandal & Ors. v. Auxilo Finserve Pvt. Ltd. & Ors.* (Neutral Citation: 2026 INSC 408; Special Leave Petition (C) No. 19540 of 2025, accompanied by I.A. No. 67814 of 2026). The dispute emanated from an undisputed financial default by the petitioners, who manage the Chaitanya Public School & Junior College, to the secured creditor, Auxilo Finserve Pvt. Ltd. The secured creditor initiated recovery action under Section 13 of the SARFAESI Act, issuing a formal demand notice under Section 13(2) on September 13, 2021, for an outstanding sum of approximately ?5.06 crore.

Broken Undertakings and Contumacious Conduct

Following the demand notice, the factual history is marred by a series of unfulfilled promises and formal undertakings submitted by the petitioners across various legal forums, including the Debts Recovery Tribunal and the Bombay High Court. Despite agreeing to payment schedules and memorandums of understanding, the petitioners continually defaulted. Furthermore, the petitioners brazenly ignored a Bombay High Court directive dated November 29, 2024, which mandated them to notify parents that academic activities would be discontinued from the 2025–26 academic year. The dispute escalated significantly in May 2025 when the authorised officer of the secured creditor legally assumed possession of the secured asset, only to be forcibly ousted on two separate occasions by a group of approximately forty individuals acting on behalf of the petitioners through illegal, strong-arm tactics.

The Bombay High Court Decision

Faced with this blatant disregard for the law, the secured creditor approached the Bombay High Court under its writ jurisdiction pursuant to Article 226 of the Constitution of India. By its impugned order dated June 27, 2025, the High Court strongly condemned the petitioners' coercive tactics and outright defiance of statutory mechanisms. The High Court rejected an intervention application filed by the petitioners and explicitly restrained them and their agents from re-entering the secured asset. To ensure compliance, the High Court directed the Senior Inspector of Kurndwad Police Station, Kolhapur, to deploy necessary police force to assist the secured creditor in taking permanent, unhindered possession of the school premises.

Rival Contentions in the Supreme Court

Aggrieved by the High Court's directive, the petitioners approached the Supreme Court via a Special Leave Petition. During the pendency of the matter, the secured creditor filed an interlocutory application (I.A. No. 67814 of 2026) seeking immediate police deployment, the administrative closure of the school following final examinations, and permission to auction the premises. The creditor argued that the petitioners were actively taking the courts for a ride, particularly by obstructing a previously Court-appointed State Administrator from assuming charge of the school. The State of Maharashtra fully corroborated the secured creditor's grievances. The State's counsel highlighted that the petitioners were in active contempt, having refused to hand over critical institutional records to the Administrator, and having failed to issue mandatory transfer certificates to students despite the conclusion of the academic year's final examinations.

Issues Framed and Legal Provisions Analysed

The central issue before the Supreme Court was whether the continuous, contumacious conduct and forceful trespassing by the petitioners warranted the immediate closure of the educational institution and a police-assisted handover of the premises. The Court was tasked with harmonising the strict provisions of Sections 13 and 13(2) of the SARFAESI Act, which empower secured creditors to enforce security interests, with the fundamental necessity of safeguarding the ongoing academic year of the innocent students enrolled at the institution.

Reasoning and Analysis of the Supreme Court

In its judicial analysis, the Supreme Court expressed severe displeasure at the petitioners' conduct. The Court noted that in prior hearings during August and September 2025, it had deliberately refrained from initiating formal contempt proceedings against the petitioners solely to shield the academic prospects of the students. It was as a workable, interim arrangement that the Court had appointed an Administrator. However, the Court observed that the petitioners exhibited an extreme lack of solicitude for the rule of law by actively preventing the Administrator from executing his duties. Considering that the final examinations had subsequently concluded and the parents had been duly warned to secure admissions in five neighbouring schools, the Court reasoned that sufficient judicial indulgence had already been afforded to the petitioners.

Final Decision and Directions

Ruling definitively on the matter, the Supreme Court dismissed the Special Leave Petition and allowed the secured creditor's application for directions. The Court ordered the permanent closure of the Chaitanya Public School & Junior College effective from the forenoon of May 1, 2026. To protect the students, a strict mandate was placed on the petitioners to immediately issue transfer certificates to all enrolled students. Addressing the recovery of the debt, the Court granted the secured creditor liberty to approach the Superintendent of Police and Station House Officer in Kolhapur, directing the police to ensure the peaceful transfer of vacant possession without any interference from the petitioners.

Conclusion

Once possession is secured, the Court ordered that a fresh valuation report be procured from a government valuer to establish a revised reserve price for the subsequent auction sale of the property. The Court also recalled its earlier order appointing the Administrator and imposed a penalty cost of ?1 Lakh on the petitioners. While the Court withheld initiating formal contempt proceedings due to the ordered closure of the school, it issued a stern warning that any future obstruction would invite strict and unpalatable penal consequences. This judgment stands as a strong reaffirmation of the sanctity of the SARFAESI Act, establishing that courts will not allow defaulting entities to use the shield of an educational institution to perpetrate illegalities and flout the rule of law.

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