



SARFAESI

SARFAESI Action Under Judicial Scrutiny: DRT Chandigarh Awards Compensation to Auction Purchasers While Setting Aside Illegal Sale

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The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, was enacted with the laudable objective of enabling banks and financial institutions to recover their dues without the protracted delays of civil litigation. Yet, the very expediency that the statute promises can become its undoing when secured creditors, in their haste to enforce, overlook the procedural safeguards carefully woven into the legislative fabric. The Debt Recovery Tribunal, Chandigarh, in *S.G.K. Industrial Corporation and Ors. v. Authorized Officer, Indian Bank and Ors.*, delivered on 22nd May 2026 by Shri Anand Sagar Narang, Presiding Officer, DRT-I, Chandigarh, has delivered a salutary reminder that the SARFAESI framework is not a charter for arbitrary action but a regulated mechanism where mandatory compliance with statutory procedures is the sine qua non of valid enforcement. The case, bearing Securitization Application No. 355 of 2024, presents a textbook illustration of how cumulative procedural lapses can vitiate an otherwise confirmed auction, and how a tribunal must balance the competing interests of borrowers, secured creditors, and bona fide auction purchasers.

The applicants before the Tribunal were M/s S.G.K. Industrial Corporation, a proprietary concern of Kunal Grover, who figured as Applicant No. 2, while Applicant No. 3 was a person whose status as guarantor remained in dispute. The respondents comprised the Authorized Officer of Indian Bank and certain auction purchasers who had acquired the mortgaged property through e-auction. The deceased Sidharath Grover, who had stood as guarantor and mortgaged his own immovable property, had passed away on 3rd May 2023, leaving Kunal Grover as his sole surviving legal heir. The credit facilities availed by the corporate borrower included a Cash Credit limit of Rs. 70.00 lacs, a Vehicle Loan of Rs. 18.00 lacs, and a Funded Interest Term Loan of Rs. 10.95 lacs, aggregating to an outstanding of Rs. 94,80,872 as on 7th November 2021. The account was classified as Non-Performing Asset on 28th October 2021, ostensibly on account of financial losses suffered during the COVID-19 pandemic. The securities comprised two distinct plots of land, one measuring 8 Marlas 50 square feet belonging to Kunal Grover and another measuring 7 Marlas 252½ square feet at Village Raowali belonging to Sidharath Grover, together with certain plant and machinery.

The chronology of events that unfolded after the classification of the account as NPA reveals a pattern of persistent procedural irregularity on the part of the secured creditor. The Bank issued its demand notice under Section 13(2) of the SARFAESI Act on 8th November 2021, followed by a notice under Section 13(4) and symbolic possession on 15th February 2022. The first auction notice was issued on 6th May 2022 with a reserve price of Rs. 55,93,000, but attracted no bidder. Thereafter, the Bank began a series of auction attempts at progressively reduced reserve prices, issuing notices on 28th October 2022 at Rs. 50,34,000, on 31st January 2023 and 26th June 2023 at Rs. 48,00,000, on 14th December 2023 and 6th March 2024 at Rs. 35,00,000, and finally on 13th March 2024 at Rs. 33,42,000 for an e-auction scheduled on 29th March 2024. The sale notice was served upon the applicants on 15th March 2024 and published in Hindustan Times and Punjabi Jagran on 17th March 2024. The property was ultimately purchased by Himanshu Bansal for Rs. 33.52 lacs.

The applicants' grievances were manifold and substantial. They contended that the Bank had taken physical possession on 7th September 2022 of machinery and equipment that had never been hypothecated with the Bank, and despite their request for release on 13th September 2022, the Bank proceeded to sell the same. They had submitted a One Time Settlement proposal for Rs. 28.00 lacs on 15th September 2022, which the Bank did not respond to, and a revised OTS proposal for Rs. 42.00 lacs on 30th September 2022 accompanied by an upfront deposit of Rs. 10.00 lacs, which the Bank acknowledged but again failed to act upon. The applicants were shocked to receive an SMS on 10th April 2024 informing them that Rs. 33.52 lacs had been credited to their account, indicating that the property had been sold without their knowledge of the auction outcome. They further contended that the Bank had sold two distinct plots belonging to different owners as a single unit, had failed to give the mandatory 15-day notice prior to auction, and had continued to address notices to the deceased Sidharath Grover without impleading his legal heirs.

Counsel for the applicants, argued that the auction was liable to be set aside on multiple grounds of procedural non-compliance. He submitted that the publication of the sale notice on 17th March 2024 and the conduct of auction on 29th March 2024 violated the mandatory 15-day gap required under the proviso to Rule 9(1) of the Security Interest (Enforcement) Rules, 2002. He further argued that the two mortgaged plots ought to have been auctioned separately with distinct reserve prices, as a smaller plot would attract more buyers and better value than a larger combined unit. The sale of unhypothecated machinery, the failure to implead legal heirs of the deceased guarantor, and the Bank's disregard for the OTS proposal of Rs. 42.00 lacs while selling the property for a lower amount were additional grounds pressed into service.

Counsel for the Bank, resisted the application on the strength of the Supreme Court's decision in the Bafna case, which held that a confirmed auction cannot ordinarily be set aside. He submitted that the auction had been fixed multiple times without attracting

any bidder, that the applicants had not intimated the Bank of Sidharath Grover's death, and that Kunal Grover being a legal heir had already been served with notices. He further contended that the secured assets adjoined each other and were therefore rightly sold as one unit. The auction purchasers, argued that his clients were bona fide purchasers who had participated in the e-auction, made payments in accordance with the terms, and expended substantial sums on improvements including civil work, paint work, and electricity connection charges.

The Tribunal, after considering the rival submissions, began a careful analysis of the procedural compliance by the secured creditor. It noted that the two plots belonged to different owners and that the Bank's decision to sell them as a single unit was a palpable error that prejudiced the applicants, since a smaller plot would naturally command more buyers and better value than a larger combined plot. The Tribunal further observed that the applicants had demonstrated their willingness to settle the account for Rs. 42.00 lacs, yet the Bank chose to ignore this proposal and sold the property for a lesser amount of Rs. 33.52 lacs, a figure that stood in stark contrast to the valuation report of 14th March 2019 which had assessed the market value at Rs. 55.93 lacs. The most telling irregularity, however, was the violation of the mandatory notice period. The Tribunal placed reliance upon the Punjab and Haryana High Court's decision in *M/s Hoshiarpur Roller Flour Mills Private Limited*, which had authoritatively held that in the case of a subsequent sale, a minimum 15-day gap is required between the date of the notice and the date of the sale under the proviso to Rule 9(1) of the Rules, and that previous failed auction attempts furnish no excuse for violating mandatory statutory provisions. The Tribunal also cited with approval the Supreme Court's decision in *Mathew Verghese*, which was relied upon by the High Court in the *Hoshiarpur Roller Flour Mills* case.

Applying these principles, the Tribunal found that the publication on 17th March 2024 and the auction on 29th March 2024 fell short of the 15-day requirement by three days. It rejected the Bank's defence that six previous auction attempts had failed, holding that this was no reason to violate the mandatory provisions of the Act and Rules. The Tribunal further found that the Bank had acted in a "clumsy" manner throughout the enforcement process, causing inconvenience to the borrowers and to the auction purchasers who had acted in good faith. While the Bafna principle protects confirmed auctions conducted in compliance with law, it does not extend its shield to auctions marred by fundamental and cumulative procedural irregularities that go to the root of their validity.

In its final order, the Tribunal set aside the auction dated 29th March 2024 and directed the Bank to refund the total sale consideration along with stamp duty and registration charges to the auction purchasers, together with interest at 12 per cent per annum from the date of deposit till the date of payment. Recognizing that the auction purchasers had been put to unnecessary inconvenience by the Bank's illegal acts, the Tribunal further awarded compensation of Rs. 30.00 lacs to them. The Bank was directed to make these payments within one month, whereupon the auction purchasers were to hand over all title documents and restore possession to the Bank. The Tribunal also granted liberty to the Bank to conduct a fresh auction in compliance with the statutory requirements.

The judgment of the DRT Chandigarh is a compelling reaffirmation that the SARFAESI Act, while designed to enable expeditious recovery, does not countenance procedural shortcuts or substantive unfairness. The mandatory 15-day notice period under Rule 9(1), the requirement to treat distinct properties separately, the obligation to consider reasonable settlement proposals, and the duty to serve notice upon legal heirs of deceased parties are not mere formalities but integral safeguards that preserve the legitimacy of the enforcement process. The Tribunal's nuanced approach, which set aside the illegal auction while simultaneously protecting bona fide auction purchasers through refund, interest, and compensation, demonstrates that judicial oversight under Section 17 of the SARFAESI Act remains a vital check against arbitrary secured creditor action. For banks and financial institutions, the judgment is a cautionary tale; for borrowers, it is a vindication of their right to procedural fairness; and for auction purchasers, it is a reminder that the protective mantle of the Bafna principle extends only so far as the auction itself is conducted within the four corners of the law.

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