



INDIAN INSTITUTE OF INSOLVENCY PROFESSIONALS OF ICAI

(Company formed by ICAI under Section 8 of the Companies Act 2013)

IBC Case Law Capsule

Number 235

(August 04, 2025)



IL & FS Financial Services Ltd. vs. Adhunik Meghalaya Steels Pvt. Ltd.

Civil Appeal No. 5787 of 2025

Date of Supreme Court Judgement, 29 July 2025

Facts of the Case: -

The present Civil Appeal No. 5787 of 2025 was filed by M/s IL & FS Financial Services Ltd. (hereinafter referred as Appellant) against M/s Adhunik Meghalaya Steels Pvt. Ltd. (hereinafter referred as Respondent) before the Hon'ble Supreme Court of India challenging the dismissal of a Section 7 application by Adjudicating Authority which was also upheld by the Appellate Tribunal on the ground that the application was barred by limitation under the Insolvency and Bankruptcy Code, 2016 (IBC).

The appellant had granted a term loan facility of ₹30 crores to the respondent under a Loan Agreement dated 27.02.15, secured by pledge of 8,10,804 shares of the respondent on 01.03.18, the loan account was classified as a Non-Performing Asset (NPA), and a recall notice was issued on 10.08.18. The default amount was ₹55,45,97,395/- at the time of filing the Section 7 application on 15.01.24. The appellant relied on acknowledgment of debt in the respondent's audited financial statements from 2015 to 2019-20, with the 2019-20 balance sheet signed on 12.08.20.

The appellant argued that the balance sheet entries constituted valid acknowledgment under Section 18 of the Limitation Act, thereby extending the limitation. Further, by excluding the period from 15.03.20 to 28.02.22 as per the Supreme Court's order dated 10.01.22 in Suo Moto Writ Petition (C) No. 3 of 2020, the limitation period extended to 27.02.25, making the application timely.

The respondent contended that the balance sheet did not mention the appellant's name or the pledged shares and, hence, could not be treated as acknowledgment of debt. The AA held that the application was barred as it should have been filed before 30.05.22. The Appellate Tribunal concurred, ruling that limitation commenced from the date of signing the balance sheet, i.e., 12.08.20, and that Para 5(III) of the 10.01.22 order governed the case, thereby rejecting the application.



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Supreme Court's Observations:

The Hon'ble Supreme Court extensively discussed the legal position regarding acknowledgment of debt under Section 18 of the Limitation Act and affirmed its applicability to IBC proceedings as per Section 238A. Referring to earlier judgments including *Khan Bahadur Shapoor Fredoom Mazda v. Durga Prasad Chamaria (1961)*, *Lakshmirattan Cotton Mills v. Aluminium Corporation (1971)*, and *Asset Reconstruction Co. (India) Ltd. v. Bishal Jaiswal (2021)*, the Court reiterated that entries in balance sheets could constitute acknowledgment of debt depending on context, tenor, and surrounding circumstances.

The Court noted that the 2019-20 balance sheet, although it did not explicitly name the appellant, showed consistent entries of secured borrowings and cash flow patterns matching prior years. The Court found that the balance sheet reflected a subsisting liability and jural relationship between the parties, especially when viewed along with previous years' financial statements. It ruled that the absence of the creditor's name does not negate acknowledgment when the entries are traceable and consistent with past records.

Importantly, the Court held that Para 5(I), not Para 5(III), of the 10.01.22 Supreme Court order applied to this case. Since the acknowledgment occurred on 12.08.20, within the original limitation period (expiring 11.08.23), the entire period from 15.03.20 to 28.02.22 must be excluded. This made the application, filed on 15.01.24, well within limitation.

Order/Judgement: The Supreme Court set aside the judgments of the AA dated 16.05.24 and Appellate Tribunal dated 25.03.25 and held that the Section 7 application was filed within limitation. The matter was remitted to the AA to proceed in accordance with law, treating the application as maintainable.

Case Review: The appeal is allowed. No order as to costs.