



INDIAN INSTITUTE OF INSOLVENCY PROFESSIONALS OF ICAI

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

IBC Case Law Capsule

Number 260

(January 27, 2026)



UV Asset Reconstruction Company Ltd. Vs Electrosteel Castings Ltd.

Civil Appeal No. 9701 of 2024

Date of Supreme Court's Judgment: 06th January 2026

Facts of the Case: -

This appeal filed by UV Asset Reconstruction Company Ltd. (UV-ARCL) under Section 62 of Insolvency and Bankruptcy Code, 2016 (IBC/ Code) calls in question the legality and correctness of the judgment dated 24.01.2024 by the National Company Law Appellate Tribunal (NCLAT), whereby, the NCLAT affirmed the order dated 24.06.2022 passed by the NCLT rejecting the application filed by the appellant under Section 7 of the IBC.

Electrosteel Steels Limited (ESL) availed financial assistance amounting to ₹500 crores from SREI Infrastructure Finance Limited ("SREI") pursuant to a sanction letter dated 26.07.2011. The sanction letter provided for security in the form of a demand promissory note and post-dated cheques and did not stipulate any requirement of a personal or corporate guarantee from ECL, the promoter of Electrosteel Castings Ltd. (ESL). However, ECL was required to furnish an undertaking to arrange for infusion of funds to enable ESL to comply with stipulated financial covenants. In furtherance thereof, ECL executed a Deed of Undertaking dated 27.07.2011, whereby it undertook a limited obligation to arrange for infusion of funds into ESL in the event of breach of financial covenants. Clause 2.2 of the said Deed obligated ECL to facilitate compliance by arranging funds, without expressly undertaking to discharge ESL's liability towards SREI. Subsequently, a supplementary agreement dated 21.11.2011 was entered into between ESL, ECL and SREI, amending certain terms of the facility and security package. CIRP against ESL was initiated on an application filed by State Bank of India (SBI) under Section 7 of the Code, which was admitted by the NCLT, Kolkata on 20.07.2017. A resolution plan submitted by Vedanta was approved on 17.04.2018 and duly implemented, pursuant to which ESL's debts stood resolved. Following implementation, SREI issued a 'no dues certificate' to ESL, acknowledging full discharge of its claims. Thereafter, SREI executed a Deed of Assignment dated 30.06.2018 in favour of UV-ARCL, purporting to assign a residual debt allegedly arising from reduced equity allotment under the Resolution Plan. The Appellant subsequently filed an application under Section 7 of the Code before the NCLT, Cuttack, asserting that ECL was a corporate guarantor and that a financial debt subsisted notwithstanding the resolution of ESL.

The NCLT dismissed the application on the ground that the ECL was not a guarantor in terms of financial facilities availed by ESL as Deed of Undertaking did not constitute a contract of guarantee, and that approval of the Resolution Plan extinguished any liability. The NCLAT affirmed the said findings, leading to the present appeal before the Supreme Court.



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Supreme Court's Observations:

After duly hearing both the parties, the Supreme Court examined whether the Deed of Undertaking executed by ECL could be construed as a contract of guarantee so as to render ECL a “corporate guarantor” and consequently a “corporate debtor” under the IBC. The Court observed that a guarantee, within the meaning of Section 126 of the Indian Contract Act, 1872, must involve a clear and unequivocal promise to discharge the liability of a principal debtor in the event of default. On a plain reading of the Deed of Undertaking, the Court held that ECL had merely undertaken to arrange for infusion of funds to ensure compliance with financial covenants and had not assumed any obligation to repay the debt of ESL.

The Court further noted that the language of the Deed of Undertaking did not disclose the essential ingredients of a contract of guarantee, namely the existence of a principal debtor, a surety, and a promise to discharge the debt upon default. It held that commercial undertakings aimed at financial support or facilitation cannot, by implication, be elevated to guarantees in the absence of a clear contractual intent. Accordingly, the Court agreed with the concurrent findings of the NCLT and NCLAT that ECL could not be treated as a corporate guarantor.

The Supreme Court also considered the effect of approval and implementation of the resolution plan in the CIRP of ESL. Relying on the settled position of law, the Court observed that once a Resolution Plan is approved and implemented, all claims not forming part of the Plan stand extinguished. It held that the issuance of a ‘no dues certificate’ by SREI conclusively demonstrated discharge of the underlying debt, and no residual or contingent liability could thereafter be asserted against ECL. Rejecting the Appellant’s contention that assignment of an alleged residual debt revived a cause of action, the Court held that an assignee cannot acquire rights greater than those held by the assignor. In the absence of a subsisting debt or a valid guarantee, initiation of proceedings under Section 7 of the Code against ECL was held to be legally unsustainable.

Order/Judgement: Considering the facts and circumstances of the case as highlighted above, the Supreme Court concurred with the findings of NCLT and NCLAT that the Deed of Undertaking does not constitute a contract of guarantee and that ECL cannot be treated as a Corporate Guarantor for the financial facilities availed by ESL. Therefore, there was no infirmity in the impugned judgment warranting interference in this appeal.

Case Review: *Appeal dismissed.*