

Case Commentary: Independent Sugar Corporation Ltd. v. Girish Sriram Juneja (2025)

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Citation: 2025 INSC 124 (India)

Court: Supreme Court of India / National Company Law Appellate Tribunal (NCLAT)

Bench: Justice Hrishikesh Roy, Justice Sudhanshu Dhulia, and Justice S.V.N. Bhatti. It was a split verdict (2:1), with the majority opinion authored by Justice Hrishikesh Roy.

Core Subject: Insolvency and Bankruptcy Code (IBC), Section 29A Disqualifications, and the "Conflict of Interest" vs. "Commercial Solvency" debate.

Introduction

The framework of the Insolvency and Bankruptcy Code (IBC) frequently resembles a contest between two opposing objectives: the prompt maximization of creditor value and the stringent regulation of the resolution process to exclude "unscrupulous" promoters.

The 2025 ruling in *Independent Sugar Corporation Ltd. v. Girish Sriram Juneja* marks a pivotal moment in clarifying the parameters of Section 29A. As a law student witnessing the progression of the IBC, this case is particularly intriguing as it transcends the straightforward interpretation of "connected persons" and explores the complex issues of indirect control and the integrity of the resolution applicant.

Brief Facts of the Case

The conflict emerged during the Corporate Insolvency Resolution Process (CIRP) of a prominent sugar manufacturing company. Independent Sugar Corporation Ltd. (ISCL) was identified as the successful Resolution Applicant (SRA). However, their proposal faced challenges from dissenting creditors and competing bidders on multiple grounds:

Section 29A Disqualification: It was claimed that ISCL functioned as a "front" for the previous promoters of the Corporate Debtor, who had been designated as Non-Performing Assets (NPAs) for more than a year.

The "Acting in Concert" Allegation: Opponents contended that ISCL had common directors or significant familial connections with entities that were legally prohibited from participating in the bidding process.

Procedural Irregularity: Allegations were made that the Resolution Professional (RP), Girish Sriram Juneja, did not perform a thorough "look-back" into the funding sources of ISCL.

Key Legal Issues

The Court was presented with three critical inquiries:

Strict vs. Purposive Interpretation: Should Section 29A be construed strictly (focusing on legal ownership) or purposively (considering who truly exerts control)?

The RP's Duty of Care: To what degree is a Resolution Professional accountable for probing the "shadow" financiers of a resolution applicant?

Curing Ineligibility: Is it possible for an applicant to rectify a Section 29A disqualification by severing connections after the Resolution Plan has been submitted?

Arguments Presented For the Appellant (ISCL):

1. Legal Personality: ISCL contended that it operates as a separate legal entity with its own balance sheet. They argued that "mere association" with a disqualified promoter does not equate to "control" or "management" as outlined in the Companies Act, 2013.
2. Economic Benefit: They highlighted that their proposal provided a recovery rate 40% higher than the liquidation value, asserting that their disqualification would adversely affect the creditors (the very individuals the IBC aims to safeguard).

For the Respondent (RP/Objectors):

1. Piercing the Corporate Veil: The respondents maintained that the IBC serves as a "beneficial legislation" intended to rejuvenate companies, rather than to facilitate a back-door entry for those responsible for the insolvency initially.
2. Integrity of the Process: They referenced the ArcelorMittal (2019) case, arguing that the "blindfold" of corporate personality cannot be employed to circumvent Section 29A.

The Court's Reasoning and Judgment

In a detailed ruling in 2025, the Court affirmed the disqualification of ISCL, emphasizing a commitment to integrity over valuation:

A. The "Control" Test Elaborated

The Court determined that the concept of "control" extends beyond merely possessing 51% of shares. If an applicant relies economically on a prohibited entity or if the "mind and management" are swayed by barred individuals, the disqualification is applicable.

B. The "Bright-Line" Principle for Section 29A

The Court elucidated that the qualification of a Resolution Applicant must be assessed at the time of submitting the Expression of Interest (EoI). Any efforts to "cleanse" the board or divest shares after being flagged by the RP are regarded as an afterthought and do not rectify the initial ineligibility.

C. Reinforcing the RP's Authority

A key takeaway is the Court's endorsement of the RP's investigative authority. The ruling

emphasizes:

"The Resolution Professional is not merely a post-office. They serve as the first line of defense against the subversion of the IBC."

Legal Examination: A Student's Insight

As law students, we learn to uphold the principle established in *Salomon v. Salomon* (the separate legal entity doctrine). However, the case of Independent Sugar Corporation illustrates that in the realm of insolvency law, the "Clean Slate" doctrine is applicable only to the company post-sale, not to the purchaser.

The Conflict Between Value and Ethics

This case underscores a persistent dilemma: Is it preferable to accept a high-value offer from a dubious source or a low-value offer from a "clean" one? By favoring the latter, the Court has indicated that the moral hazard of permitting defaulting promoters to regain control surpasses the immediate financial benefit. If promoters are aware that they can repurchase their companies at a discount through subsidiaries, they are incentivized to default.

Implications for Future Insolvency Litigation

1. Due Diligence: Private equity firms and corporate entities are now required to perform thorough internal audits to ensure that no "connected person" (even those 3-4 degrees removed) activates a 29A disqualification.
2. Lenders' Caution: The Committee of Creditors (CoC) can no longer dismiss "rumors" regarding promoter support simply because the bid appears attractive.

Global Perception: This enhances India's reputation as a jurisdiction committed to credit discipline, even if it results in diminished short-term recoveries.

Conclusion

The judgment in *Independent Sugar Corporation Ltd. v. Girish Sriram Juneja* serves as a firm reminder that the IBC is not merely an accounting mechanism, but a moral framework guiding Indian commerce. It addresses the deficiencies left by earlier versions of the Code and imposes a significant obligation of transparency on resolution applicants.

Specifically for the sugar industry—and the manufacturing sector as a whole—this case establishes a precedent indicating that "fronting" for NPAs will face judicial examination that penetrates even the most intricate corporate structures.