The Indian Journal for Research in Law and Management

Open Access Law Journal – Copyright © 2026

Editor-in-Chief – Dr. Muktai Deb Chavan; Publisher – Alden Vas; ISSN: 2583-9896

This is an Open Access article distributed under the terms of the Creative Commons Attribution-Non-Commercial-Share Alike 4.0 International (CC-BY-NC-SA 4.0) License, which permits unrestricted non-commercial use, distribution, and reproduction in any medium provided the original work is properly cited.

REDEMPTION RIGHTS AND THE PLEDGE OF DEMATERIALIZED SHARES: PTC INDIA FINANCIAL SERVICES V. VENKATESWARLU KARI

~Pragna Putcha

ABSTRACT

This paper pertains to the law of pledge under the Indian Contract Act, 1872 as it applies to dematerialized shares, through a commentary on PTC India Financial Services Limited v. Venkateswarlu Kari (2022). PIFSL had lent INR 125 crores to NNIPL against a pledge of 26% of the shares of NEVPL, and after default it had itself recorded as "beneficial owner" of those shares without selling them. The NCLT and NCLAT treated this registration as a sale that cleared the debt. The Supreme Court set their orders aside, holding that the Depositories Act, 1996 does not override Sections 176 and 177 of the Contract Act, that registration under Regulation 58(8) is a precondition for sale and not a sale, and that the pawnor's right of redemption ends only on an actual sale to a third party after reasonable notice. The paper agrees that this harmonious construction protects pawnors, and it also questions parts of the reasoning. These include the line between registering as beneficial owner and selling to oneself, the exception for bona fide purchasers of listed securities despite the mandatory notice in Section 176, and the valuation of unlisted pledged shares, which the Court left open and referred to SEBI.

INTRODUCTION

PTC India Financial Services Limited v. Venkateswarlu Kari is a landmark case surrounding the law of pledge under the Indian Contract Act, 1872, in the context of dematerialized securities.[1] Pledge is defined under Section 172 of the ICA as "the bailment of goods as security for payment of a debt or performance of a promise".[2] In this case, the primary question before the Supreme Court was whether the Depositories Act, 1996, read with Regulation 58 of the Securities and Exchange Board of India, has the effect of overriding the provisions relating to the contracts of pledge under the ICA and the common law as applicable in India.[3] This poses a pertinent question given the increasing use of shares as loan collateral and delves into the interplay between IBC proceedings and contract and securities law, as well as offering a doctrinal clarification on "sale to sell". This commentary argues that the Court's harmonious

[1] *PTC India Financial Services Ltd. v. Venkateswarlu Kari*, (2022) 9 SCC 704.
[2] Indian Contract Act, 1872, § 172, No. 9, Acts of Parliament, 1872 (India).
[3] *PTC India Financial Services Ltd. v. Venkateswarlu Kari*, (2022) 9 SCC 704.

construction correctly preserves pawnor protections while carving a pragmatic exception for third-party purchasers of listed securities.

SUMMARY OF FACTS

PTC India Financial Securities Limited (PIFSL) had given a loan to NSL Nagapatnam Power and Infratech Limited (NNIPL) for INR 125 Crores by way of a Bridge Loan Agreement (BLA) dated 10 March, 2014. This loan was secured by a pledge deed executed by Mandava Holdings Private Limited (MHPL) wherein MHPL had pledged 26% shares of NSL Energy Ventures Private Limited (NEVPL), a subsidiary of MHPL, in favour of PIFSL.

Later on, as the debt had remained unpaid, PIFSL wrote to the Depository Participant, invoking its right to the shares under the pledge deed. Upon PIFSL's request, the Depository Participant had recorded PIFSL as the 'beneficial owner' of the shares of NEVPL. PIFSL did not sell the shares.

Subsequent to this request, an order for the commencement of the corporate insolvency resolution process of NNIPL was passed by the National Company Law Tribunal (NCLT), and an interim resolution professional (IRP) was appointed. PIFSL then submitted a financial claim before the IRP for the amount being due and payable by NNIPL. MHPL submitted a claim in parallel before the IRP, stating that once PFISL had been given the status of 'beneficial owner', of the shares of NEVPL, MHPL no longer had any right or title to the shares. They further claimed that it is now MHPL which had a claim against NNIPL.

The IRP thus rejected PFS's claim on the ground that the debt stood cleared by the transfer of the pledged shares in the depository account of PIFSL. Dissatisfied with this rejection, PIFSL then filed an application before the NCLT, then a further appeal to the NCLAT. Both the NCLT and NCLAT held that PIFSL's dues had been settled by way of transfer of pledged shares in its depository account, relying on the Depositories Act and Regulation 58 to treat the 'beneficial owner' registration as equivalent to sale.[4] PFISL then challenged these decisions before the Supreme Court.

ISSUES

The issues before the Supreme Court were as follows:

1. Whether the registration of a pawnee as a "beneficial owner" under Regulation 58(8) of the 1996 Regulations amounts to "actual sale" under Section 177 of the Contract Act, extinguishing the pawnor's right of redemption and crystallizing the debt.[5]
2. Whether the Depositories Act, 1996, and 1996 Regulations override Sections 176 and 177 of the Contract Act in respect of pledged dematerialized securities.
3. Whether a pawnee's sale of pledged goods to himself is valid, and its effect on the pawnor's right of redemption.
4. How Sections 176–177 interact with third-party purchasers of dematerialized securities sold without proper notice.

[4] SEBI (Depositories and Participants) Regulations, 1996, S.O. 345 (E), Gazette of India (May 16, 1996) (India).
[5] Indian Contract Act, 1872, § 177, No. 9, Acts of Parliament, 1872 (India).

COURT'S DECISION

The Supreme Court held that the Depositories Act is "in addition to and not in derogation of" other law.[6] There was no express or implied intent to override Sections 176 or 177 of the Indian Contract Act, which give the pawnee's right where the pawnor makes default and the defaulting pawner's right to redeem.

The Court held that under Regulation 58(8), registration as a 'beneficial owner' is a necessary precondition for sale, but does not amount to an actual sale under Section 177 of ICA.[7] The pawnor's right of redemption under Section 177 survives even after the pawnee is recorded as a 'beneficial owner'. This right of redemption only extinguishes on actual sale to a third party in compliance with reasonable notice as given in Section 176 of the ICA and the Depositories Act.

The Court thus reaffirmed that a pawnee who transfers shares to himself, dresses it up as a sale, and hasn't sold anything at all merely amounts to a conversion, not a sale. It doesn't touch the pledge or the pawnor's right of redemption. There is one carve-out, made for practical reasons rather than doctrinal ones: where listed dematerialized securities are sold to a bona fide third party through the proper Depositories Act procedure, the pawnor can't go after that third party for redemption just because the Section 176 notice was skipped. Markets need certainty on transfers that have already gone through, and this judgment provided clarity on that point.

On the facts, PIFSL's registration as a beneficial owner was never a sale. PIFSL kept its options open: it could sue on the debt or sell the shares later, and MHPL wasn't a secured creditor to the value of those shares. The orders of the NCLAT and the Adjudicating Authority are set aside, and the appeal succeeds.

ANALYSIS

The Court's central move in this case is a harmonious construction of two statutes that, on a superficial reading, appear to pull in different directions. Section 28 of the Depositories Act states plainly that the Act is "in addition to and not in derogation of" other laws governing the holding and transfer of securities, and the Court leans heavily on that clause to conclude that Regulation 58 cannot silently rewrite Sections 176 and 177 of the Contract Act.[8] This is a defensible reading. A non-derogation clause of this kind signals that Parliament intended the depository framework to solve a specific problem, the paperless recording and transfer of securities, without touching the substantive law of pledge that governs the rights of pawnor and pawnee. Read this way, Regulation 58(8) is a procedural gateway: a pawnee must be recorded as "beneficial owner" before he can sell dematerialised shares, in the same way a pawnee holding physical share certificates would need actual possession before he could sell them. The registration step does the work that physical delivery used to do. It does not, by itself, complete a sale.

That said, the distinction the Court draws between "registration as beneficial owner" and "actual sale" is cleaner in doctrine than it is in practice. Once PIFSL was recorded as beneficial owner, it acquired voting rights, the right to dividends, and effective control over the shares,

[6] Depositories Act, 1996, § 28, No. 22, Acts of Parliament, 1996 (India).
[7] *PTC India Financial Services Ltd. v. Venkateswarlu Kari*, (2022) 9 SCC 704.
[8] Depositories Act, 1996, § 28, No. 22, Acts of Parliament, 1996 (India).

exactly the incidents of ownership that Clause 2.3 of the Pledge Deed itself contemplated passing to the lender on default.[9] MHPL's argument, that this transfer of economic and voting control was tantamount to a sale, is not frivolous. It reflects the real position on the ground more than it reflects the formal categories of the Contract Act. The Court's answer, that the pawnee's "special property" in a pledge has always included a right to retain and deal with the pledge short of an outright sale, is consistent with the older authorities. But it also shows the limits of applying a nineteenth-century bailment framework, built around physical possession of goods, to a dematerialised security where "possession" and "control" are legal fictions maintained by a depository's ledger entries. The Court resolves the tension by insisting that only money changing hands through an actual sale to a third party can crystallise the debt. Whether that rule adequately protects a pawnor like MHPL, who has lost practical control of the shares long before any such sale occurs, is a fair question the judgment does not fully answer.

The second thread worth pulling on is the Court's treatment of "sale to self." The rule against a pawnee selling pledged goods to himself is reaffirmed by the Court here: such a sale is a conversion, not an "actual sale," and it does not extinguish the pawnor's right of redemption under Section 177. This is sound as a matter of protecting pawnors from undervaluation. A secured creditor who could simply declare the collateral sold to itself at whatever price it names would have every incentive to lowball the valuation and pocket the difference. Requiring a genuine third-party transaction is a real safeguard. But it is worth asking whether "sale to self" is even a coherent concept once the pledge sits in dematerialised form. With physical goods, a pawnee selling to himself involves a discrete, identifiable second transaction, a change of hands that either happens or does not. With dematerialised securities, the pawnee becomes a beneficial owner through the same registration mechanism regardless of whether he intends to hold the shares or resells them immediately. The line between "registering as beneficial owner" and "selling to self" blurs, as both operations run through the same depository entry. The Court's answer, that intent and subsequent conduct is what distinguishes the two, is workable but leaves lower courts and IRPs with a fact-intensive inquiry rather than a bright-line test, in a context, insolvency proceedings, where bright lines are generally desirable.

The third and most contestable part of the judgment is the carve-out for listed securities sold to bona fide third parties. Section 176 does not contain a "contract to the contrary" saving clause, unlike Sections 163, 171, and 174, and earlier authorities such as the *Co-Operative Hindusthan Bank* case treat this as deliberate: the notice requirement is mandatory and cannot be waived by agreement because it exists to protect the pawnor, not merely to serve the pawnee's convenience.[10] Yet the Court holds that where listed dematerialized securities are sold to an innocent third party in accordance with the Depositories Act and applicable regulations, the pawnor cannot seek redemption from that third party merely because reasonable notice under Section 176 was not given. This is, in substance, a judicially created exception to what the Court itself calls a mandatory provision. The justification offered, that treating such sales as void would introduce intolerable uncertainty into securities markets and expose innocent purchasers to claims they have no way of anticipating, is a legitimate policy concern. But it sits uneasily next to the Court's own insistence, a few paragraphs earlier, that parties cannot

[9] *PTC India Financial Services Ltd. v. Venkateswarlu Kari*, (2022) 9 SCC 704.

[10] *Co-operative Hindustan Bank Ltd. v. Surendra Nath Dey*, AIR 1932 Cal 524.

contract out of Section 176's notice requirement. If private parties cannot waive the protection by agreement, it is not obvious why a court should be able to narrow it by exception for an entire category of transactions. The better view may be that this is less an interpretation of Section 176 and more a policy-driven limitation on remedies, confining the pawnor to a claim in damages against the defaulting pawnee rather than a claim to redeem the shares from the third party. The judgment would have been more transparent if it had framed the carve-out that way rather than folding it into the meaning of "actual sale."

Finally, the case exposes a gap in terms of the valuation problem. PIFSL and MHPL disagreed by an order of magnitude over the value of the pledged shares, with PIFSL pegging them at Rs. 18.75 crore and MHPL at Rs. 319 crore, precisely because NEVPL's shares were unlisted and untraded.[11] The Court's ruling settles the legal character of PIFSL's claim in the insolvency proceeding, but it does nothing to resolve how illiquid, unlisted collateral should be valued when a pledge is invoked but no sale has yet occurred. This is arguably the more pressing commercial problem for NBFCs and other lenders who take share pledges as security in unlisted group companies, a common structure in Indian project finance, and it is telling that the Court itself flagged, almost as an aside, that SEBI ought to revisit Regulation 58 and the takeover regulations to remove the ambiguity the judgment had to work around. That the Supreme Court felt the need to invite regulatory follow-up suggests the harmonious construction on offer here is a workable fix for the immediate dispute rather than a complete answer for the field going forward.

CONCLUSION

The judgment settles a question that had split High Courts for years: does registering a pledgee as "beneficial owner" of dematerialised shares amount to a sale that shuts the door on redemption. The answer is no. Regulation 58(8) is a gateway, not an exit. It lets the pledgee stand in the depository's records so that a sale can happen, but the sale itself still has to happen, on notice, under Section 176, before Section 177 stops working. A pledgee who registers itself and then treats that as the end of the matter, without notice, without a third-party buyer, without applying proceeds to the debt, hasn't sold anything. It has converted the pledgor's property, and conversion doesn't extinguish a pledge. This closes off a route lenders had been using to sidestep notice requirements simply because the shares were dematerialised, and it draws the line only where actual market transactions to genuine outside buyers are concerned, since those need protection from being unwound after the fact. On the facts, PIFSL never got past that gateway. It held the shares as beneficial owner but never sold them to anyone, so NSL's holding company kept the right to redeem, and MHPL's claim to be a secured creditor over the value of those shares fails. The NCLAT and Adjudicating Authority orders, both of which had treated registration as equivalent to sale, don't survive that reasoning and are set aside.

[11] *PTC India Financial Services Ltd. v. Venkateswarlu Kari*, (2022) 9 SCC 704.