8. NCLAT Upholds Coc's Commercial Wisdom in Jaiprakash Associates Case - Economy

1. Why in News

1. National Company Law Appellate Tribunal (NCLAT) dismissed Vedanta's plea against Adani's bid for Jaiprakash Associates
2. Upheld Committee of Creditors (CoC) commercial decision under IBC framework
3. Reaffirmed principle that CoC's commercial wisdom supreme
4. Limited judicial interference in economic decisions
5. National Company Law Tribunal approved Adani's resolution plan (March 2026)
6. Case highlights primacy of creditor decisions in insolvency resolution

2. Background of the Case

Insolvency Resolution Process

1. Jaiprakash Associates Ltd (JAL) underwent resolution under Insolvency and Bankruptcy Code (IBC), 2016
2. Corporate Insolvency Resolution Process (CIRP) initiated
3. Multiple bidders submitted resolution plans
4. NCLT approved Adani's plan despite competing higher bid

Competing Bids Analysis

1. Vedanta's offer - Higher total bid value with deferred payments
2. Adani's offer - Higher upfront payment, shorter timeline, quicker recovery
3. Lenders prioritized certainty and speed over higher deferred value
4. Risk assessment favoured immediate liquidity

CoC Decision-Making

1. Committee of Creditors dominated by National Asset Reconstruction Company Limited (~86% voting share)
2. Approved Adani's plan based on commercial wisdom
3. Considered execution risk, timeline, payment certainty
4. Exercised financial judgment over pure value maximization

NCLAT Verdict

1. Found no irregularity in resolution process
2. Held higher bid alone does NOT invalidate CoC's decision
3. Emphasized limited judicial interference in economic decisions
4. Reaffirmed commercial wisdom doctrine
5. Procedural compliance satisfied

3. Insolvency and Bankruptcy Code (IBC), 2016

Purpose and Framework

1. Enacted 2016 to provide robust debt resolution framework
2. Mechanisms - Corporate Insolvency Resolution Process (CIRP) and liquidation
3. Seeks to maximize asset value and fair distribution among creditors
4. Time-bound resolution addressing firm exit issues in India
5. Balances stakeholder interests

4. Committee of Creditors (CoC)

Definition and Status

1. Supreme decision-making body under IBC, 2016
2. Supervises CIRP and determines company's fate (revival or liquidation)
3. Exercises commercial wisdom binding on all parties

Composition

1. Constituted by Interim Resolution Professional (IRP) after claim verification
2. Comprises - Only financial creditors (banks, financial institutions)
3. Operational creditors - No voting rights; may attend meetings if dues exceed threshold
4. Voting share proportional to debt

Role and Functions

1. Takes control of corporate debtor during CIRP through Resolution Professional
2. Evaluates resolution plans submitted by bidders
3. Decides between revival (resolution) or liquidation
4. Ensures asset value maximization and stakeholder balance
5. Commercial wisdom - Financial decisions final and binding; limited judicial interference except procedural/legal grounds

Key Powers

1. Appoint or replace Resolution Professional (RP)
2. Approve insolvency resolution costs
3. Approve or reject resolution plans (requires ≥66% voting share)
4. Strategic decisions on restructuring, sale, or liquidation

5. National Company Law Appellate Tribunal (NCLAT)

Establishment and Structure

1. Quasi-judicial appellate body under Companies Act, 2013 (Section 410)
2. Functional since June 1, 2016
3. Composition - Chairperson with Judicial and Technical Members
4. Members appointed by Central Government (expertise in law, finance, administration)
5. Headquarters - New Delhi

Jurisdiction

Hears appeals against orders of -

1. National Company Law Tribunal (NCLT)
2. Insolvency and Bankruptcy Board of India (IBBI)
3. Competition Commission of India (CCI)
4. National Financial Reporting Authority (NFRA)

Powers and Procedure

1. Civil court powers (summon witnesses, examine evidence, requisition documents)
2. Orders enforceable like civil decrees
3. Appeals lie with Supreme Court of India
4. Mandated to dispose cases within 6 months for speedy resolution

6. National Asset Reconstruction Company Limited (NARCL)

Overview

1. India's first "Bad Bank" established as Asset Reconstruction Company (ARC)
2. Set up under Companies Act to tackle Non-Performing Assets (NPAs)
3. Structure - Public Sector Banks hold 51% stake; private lenders hold rest
4. Works alongside India Debt Resolution Company Limited (IDRCL)

Working Mechanism

NARCL - Acquires stressed assets (>₹500 crore) from banks

IDRCL - Manages and resolves acquired assets

Payment structure -

1. 15% upfront cash to selling bank
2. 85% as Security Receipts (SRs)

Government guarantee of ₹30,600 crore ensures minimum recovery

Role and Significance

1. Cleans bank balance sheets removing bad loans
2. Enables faster resolution and better value realization
3. Improves credit flow and banking efficiency
4. Centralized aggregator of stressed assets
5. Reduces NPA burden on banking system
6. Professional asset management

7. Legal Principles Established

Primacy of Commercial Wisdom

1. CoC's business judgment receives judicial deference
2. Courts cannot substitute their economic assessment
3. Higher bid value alone insufficient to overturn decision
4. Certainty, timeline, execution capability matter

Limited Judicial Review

1. Courts intervene only on procedural or legal violations
2. Not on merits of commercial decisions
3. Respects financial creditors' expertise
4. Prevents judicial overreach in business matters

Creditor Supremacy

1. Financial creditors control resolution process
2. Their economic interest's paramount
3. Operational creditors have limited role
4. Reflects debt-equity hierarchy

8. Conclusion

NCLAT judgment reinforces CoC's commercial wisdom primacy under IBC framework, establishes limited judicial interference in economic decisions, and highlights growing institutional role of NARCL in India's insolvency ecosystem, ensuring creditor-driven efficient resolution process.

Source - https -//economictimes.indiatimes.com/news/company/corporate-trends/nclat-upholds-adani-groups-bid-for-jaiprakash-associates-backs-lenders-decision/articleshow/130756536.cms?from=mdr