

Detailed Analysis of the Supreme Court's Order: IL&FS Financial Services Ltd. v. Adhunik Meghalaya Steels Pvt. Ltd.

The Supreme Court's judgment delivered on July 29, 2025, in the case of IL&FS Financial Services Ltd. v. Adhunik Meghalaya Steels Pvt. Ltd., is a landmark in the interpretation of limitation principles and acknowledgment of debt under the Insolvency and Bankruptcy Code (IBC) and the Limitation Act, 1963.

Background and Core Issue

- **Case Facts:**

IL&FS extended a ₹30 crore loan facility in 2015 to Adhunik Meghalaya Steels Pvt Ltd., secured with pledged shares. The account was marked as a Non-Performing Asset (NPA) on March 1, 2018. Upon default, a recall notice was issued, but no repayment followed. IL&FS filed a Section 7 IBC petition on January 15, 2024, claiming an outstanding debt of ₹55.45 crore based substantially on entries reflecting outstanding borrowings in Adhunik's balance sheets for FY 2019-20, signed August 12, 2020^{[1][2]}.

- **Key Legal Question:**

Can a generic entry in a company's balance sheet—without specifically naming the creditor—constitute a valid acknowledgment of debt under Section 18 of the Limitation Act, and thus extend the limitation period for an IBC action?

Lower Tribunals' Findings

- **NCLT & NCLAT Decisions:**

Both the National Company Law Tribunal (NCLT) and the National Company Law Appellate Tribunal (NCLAT) held that since the limitation period, even after considering the COVID-19 extension ordered by the Supreme Court, had expired, and since the balance sheet did not expressly name IL&FS as the creditor, there was no valid acknowledgment. The application was thus dismissed as time-barred^{[1][3]}.

Supreme Court's Ruling

- **Balance Sheet as Acknowledgment:**

The Supreme Court overruled the lower tribunals by holding that a balance sheet entry—if it clearly reflects the outstanding liability, even without expressly naming the creditor—can serve as a valid acknowledgment of debt under Section 18 of the Limitation Act. The Court emphasized substance

over form: if the context, figures, security terms, and past financial statements establish a continuous jural relationship comparable to previous years when the creditor was named, that is sufficient^{[4][1][2]}.

- **COVID-19 Limitation Extension Application:**

The judgment clarified the proper application of COVID-era limitation extensions:

- The full period from March 15, 2020, to February 28, 2022, is to be excluded for limitation calculation (not just the “90-day” catch-up rule, which only applies in certain scenarios).
- Therefore, the fresh limitation period, computed from the balance sheet acknowledgment date (August 12, 2020), extended well past the Section 7 IBC application date of January 15, 2024, making the application timely^{[1][2]}.

- **No Need to Name Creditor:**

The Court reaffirmed: *“An entry in a company’s balance sheet amounts to a valid acknowledgment of debt under Section 18 irrespective of whether a particular creditor is named, provided the context unmistakably establishes the liability.”*^{[4][5]}

Key Legal Takeaways

- **For Companies and Legal Advisors:**

- Carefully crafted financial disclosures matter. Even seemingly generic or routine entries, when consistent across years and tied to underlying commercial arrangements, may bind the company for limitation purposes.
- Practitioners must audit balance sheets and related documents for any acknowledgment of debt, especially when defending or pursuing IBC actions.

- **For the IBC Regime:**

- The decision cements a *business-reality first* approach in insolvency proceedings—rigid technicalities should not override substantive justice or practical continuity in commercial dealings^{[4][1]}.
- It guarantees that pandemic-induced disruptions do not unduly deprive creditors of legitimate remedies.

Conclusion

This Supreme Court order is a definitive guidepost for all stakeholders on how debt acknowledgments function within India's insolvency framework. It harmonizes jurisprudence by prioritizing the real-world context of corporate debts and financial disclosures, ensuring that the limitation period is interpreted fairly and pragmatically in favor of substantive justice^{[4][1][2]}.

Practical Tip:

Companies should review their financial statements proactively. Lawyers should pay special attention to the entire factual and financial backdrop, not just explicit mentions, when assessing the limitation for IBC claims. This judgment significantly increases the evidentiary value of contextually consistent balance sheet entries in restructuring and recovery scenarios.

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1. <https://courtbook.in/posts/sc-holds-ilfs-ibc-application-timely-based-on-debt-acknowledgment>
2. <https://www.verdictum.in/court-updates/supreme-court/il-fs-financial-services-limited-v-adhunik-meghalaya-steels-private-limited-2025-insc-911-balance-sheets-entries-1586865>
3. <https://www.sconline.com/blog/post/2025/03/27/acknowledgment-of-balance-sheet-under-section-18-of-limitation-act-be-counted-from-date-of-signing-of-balance-sheet-nclat-scc-times/>
4. <https://www.livelaw.in/supreme-court/naming-creditor-in-balance-sheet-not-mandatory-acknowledgment-extends-limitation-supreme-court-allows-ilfs-plea-299370>
5. <https://ibclaw.in/il-fs-financial-services-ltd-vs-adhunik-meghalaya-steels-pvt-ltd-supreme-court/>