

## **SC Order on Binani Cement Acquisition - Assessing the IBC Process**

### **Why in news?**

\n\n

The Supreme Court (SC) recently allowed UltraTech Cement's purchase of bankrupt Binani Cement to go through.

\n\n

### **What is the case on?**

\n\n

\n

- The case involves the bidding process of debt-laden Binani Cement Ltd, under Insolvency and Bankruptcy Code (IBC).

\n

- In the course of bidding, Dalmia Bharat Pvt. Ltd-owned Rajputana Properties had bid Rs 69.30 billion.

\n

- However, the Binani's Committee of Creditors (CoC) then received a revised bid from UltraTech cement of Rs 79 billion.

\n

- Binani Cement's CoC decided to consider this improved bid, even after Rajputana Properties' offer was declared the highest.

\n

- It was also filed with the Kolkata bench of the bankruptcy court for its approval.

\n

- The CoC's decision would entirely pay off all secured and unsecured financial creditors, as well as operational creditors of Binani.

\n

- Rajputana Properties had approached the apex court, challenging the CoC's decision.

\n

- It argued that it was against the spirit of the insolvency law as one could not have revised its bid after being aware of the competitor's bid.

\n

- The court referred the matter to the NCLAT (National Company Law

Appellate Tribunal).

\n

\n\n

## **What was NCLAT's ruling?**

\n\n

\n

- A two-member bench of NCLAT had dismissed the appeal by Rajputana Properties.
- NCLAT held that the objective of the Insolvency and Bankruptcy Code was resolution.
- Ultimately, the purpose of the resolution is for maximization of the value of assets of the debtor.
- Also, the resolution process should consider the interests of even those creditors, who are not part of the resolution process, such as operational creditors.
- NCLAT said that Rajputna's offer for Binani Cement was “discriminatory” against some financial creditors.
- Notably, UltraTech’s bid was backed by 100% of secured creditors, 100% of unsecured creditors and 100% of operational creditors.
- Backed by this rationality, the Court upheld the order of the National Company Law Appellate Tribunal (NCLAT).
- This is a victory for UltraTech and for the committee of creditors of Binani Cement.

\n

\n\n

## **What are the concerns?**

\n\n

\n

- The ruling is a severe blow to the integrity of the process embedded in the Insolvency and Bankruptcy Code (IBC).
- The decision seems to be not in keeping with the natural justice of the auction process.

\n

- Acceptance of offers outside the IBC-sanctioned bidding process undermines the whole basis of the auction mechanism.

\n

\n\n

\n

- Moreover, operational creditors are not specifically “discriminated” against in the IBC process.

\n

- There is, in all economic transactions, a hierarchy of creditors.

\n

- Financial creditors such as bond-holders are usually at the top of this list, and the IBC recognises this basic fact.

\n

- In sealed-bid auctions, allowing collection of information, after opening the bid, to make another offer is unfair.

\n

- If this is allowed, all future auctions will see lower bids as other parties begin to hold back their offers to examine what others would bid.

\n

- In any case, there is now an incentive for companies to short-circuit or manipulate the bidding process.

\n

\n\n

## **What lies ahead?**

\n\n

\n

- Certainly, the gap needs to be addressed by the government.

\n

- The NCLAT judgment needs to be carefully studied by the appropriate ministries (including corporate affairs, finance, law).

\n

- Suitable amendments have to be proposed to the IBC’s governing legislation.

\n

- The legal loopholes that have been taken advantage of in this case have to be addressed.

\n

\n\n

\n\n

**Source: Business Standard, Livemint**

\n

