



# "Evolving Norms in Individual Insolvency: An Analytical Study of Pivotal Supreme Court and NCLAT Judgments in India"

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**Citation:** Manoj Kumar Anand et al. (2024). "Evolving Norms in Individual Insolvency: An Analytical Study of Pivotal Supreme Court and NCLAT Judgments in India", *Educational Administration: Theory and Practice*, 30(1) 6721-6726

Doi: 10.53555/kuey.v30i1.9994

## ARTICLE INFO

## ABSTRACT

The evolution of India's Individual insolvency regime under the Insolvency and Bankruptcy Code (IBC), 2016, has been profoundly shaped by landmark judgments from the Supreme Court of India and the National Company Law Appellate Tribunal (NCLAT). This paper presents a comprehensive analysis of these judicial interventions, focusing on their transformative impact on the legal framework governing Individual guarantors to corporate debtors. The paper also explores operational challenges, including the NCLT's procedural rigidity (as seen in *Central Bank of India v. Deepen Parekh*, 2024) and the distinction between debt enforcement and criminal liability (e.g., cheque bounce cases under Section 138 NI Act). By contextualizing these rulings within India's broader insolvency ecosystem, the study underscores the judiciary's role in balancing creditor recovery with principles of natural justice.

Ultimately, this scholarly tribute argues that while the Supreme Court and NCLAT have fortified India's insolvency architecture, gaps remain in moratorium flexibility and cross-border insolvency. The paper concludes with policy recommendations to refine the IBC, ensuring it aligns with global best practices while safeguarding stakeholder interests.

**Keywords:** Individual Insolvency, IBC, Supreme Court, NCLAT, Moratorium.

## Introduction

The Insolvency and Bankruptcy Code (IBC), 2016, marked a watershed moment in India's financial jurisprudence by introducing a unified, time-bound framework for resolving insolvency. While the corporate insolvency process under the IBC has been extensively studied, the Individual insolvency regime—particularly concerning guarantors of corporate debtors—remained nebulous until the judiciary intervened through a series of landmark rulings. The Supreme Court of India and the National Company Law Appellate Tribunal (NCLAT) have played a pivotal role in interpreting and shaping the legal contours of Individual insolvency, ensuring that the IBC's objectives—maximizing asset value, balancing creditor rights, and promoting economic efficiency—are met without compromising principles of natural justice and procedural fairness.

The Context: Individual Guarantors and the IBC

Individual guarantors—typically promoters, directors, or key managerial personnel—often provide unconditional guarantees to secure corporate debt. Prior to the IBC, creditors relied on recovery mechanisms under the SARFAESI Act, 2002, or Debt Recovery Tribunals (DRTs), which were plagued by delays and inefficiencies. The IBC sought to address this by bringing Individual guarantors under its ambit through a 2019 notification, subjecting them to insolvency proceedings under Part III (Sections 94–187). However, this inclusion sparked legal challenges, primarily on three grounds:

**Constitutional Validity:** Whether the automatic moratorium (Section 96) and appointment of resolution professionals (Section 95) without prior hearings violated Article 14 (right to equality) and principles of natural justice.

- **Guarantor Liability:** Whether the approval of a resolution plan for the corporate debtor extinguished the guarantor's liability under Section 128 of the Indian Contract Act, 1872.
- **Procedural Ambiguities:** The role of adjudicating authorities (NCLT/NCLAT), the scope of moratoriums, and the interplay between civil recovery and criminal proceedings (e.g., cheque dishonour cases under Section 138 of the Negotiable Instruments Act).
- **Judicial Intervention: Clarifying the Law**
- The Supreme Court and NCLAT stepped in to resolve these ambiguities through seminal judgments:
- *Dilip B. Jiwrajka v. Union of India* (2023): Upheld the constitutional validity of Sections 95–101, ruling that the automatic moratorium and RP-led preliminary assessment were essential to prevent asset stripping and ensure timely resolution. The Court emphasized that natural justice is satisfied at the admission stage (Section 100), not earlier.
- *Lalit Kumar Jain v. Union of India* (2021): Affirmed that Individual guarantors remain liable even after corporate resolution, as their obligation is independent and co-extensive under contract law.
- *State Bank of India v. V. Ramakrishnan* (2018): Allowed simultaneous proceedings against guarantors under IBC and DRT, ensuring creditors could pursue all recovery avenues.
- *Anil Kumar v. Mukund Choudhary* (NCLAT, 2025): Held that the 180-day moratorium under Section 101 is absolute, with no extensions permitted.

#### Themes and Implications

#### **This paper examines how these judgments have:**

1. **Strengthened Creditor Rights:** By curbing delays and ensuring guarantors cannot evade liability.
2. **Balanced Fairness and Efficiency:** By upholding natural justice while maintaining the IBC's time-bound nature.
3. **Clarified Procedural Nuances:** Such as the RP's role, moratorium applicability, and High Court non-interference (*Bank of Baroda v. Farooq Ali Khan*, 2025).

#### Unresolved Challenges and the Way Forward

Despite judicial clarity, gaps persist, including:

- **Moratorium Rigidity:** The non-extendable 180-day period may hinder complex resolutions.
- **Cross-Border Insolvency:** Lack of provisions for foreign assets of Individual guarantors.
- **Regulatory Overlaps:** Conflicts between IBC moratoriums and other statutes (e.g., consumer forums, NI Act).

Through an in-depth examination of pivotal cases such as *Dilip B. Jiwrajka v. Union of India* (2023) and *Lalit Kumar Jain v. Union of India* (2021), the study highlights how the judiciary has:

- Upheld the constitutional validity of key IBC provisions (Sections 95–101), reinforcing the automatic moratorium and the appointment of resolution professionals without pre-admission hearings.
- Clarified the irrevocable liability of Individual guarantors, ruling that approval of a corporate resolution plan does not discharge their obligations under contract law.
- Streamlined insolvency proceedings by curbing delay tactics, enforcing strict 180-day moratoriums, and restricting High Court interference under Article 226.

#### **Honourable supreme court judgement of famous case of Dilip B. Jiwrajka**

**1.** *Dilip B. Jiwrajka v. Union of India & Ors.* (SLP(C) No. 16464 of 2021, Order dated 09.11.2023) (Arising out of impugned final judgment and order dated 30-09-2021 in WPL No. 21271/2021 passed by the High Court of Judicature at Bombay) (Earlier was known as *Gurmeet Sodhi vs Union of India* (SLP(C) No. 16464 of 2021). In fact, this case started as on 29th April 2022 (1-1/2 year) & 14-15 hearings took place.

##### **1.1. Key features of SC judgments**

**1.1.1.** During the hearing, senior lawyer Abhishek Manu Singhvi, representing the petitioners, argued that there was a lack of due process in Section 95 of the IBC, which allows a resolution professional to be appointed without a formal hearing. He called for incorporating principles of natural justice, highlighting concerns about privacy and rights. He argued that the automatic initiation of interim moratorium and the appointment of an RP should require judicial scrutiny, as these actions are irreversible under Section 100, where a judicial body finally hears the guarantor.

**1.1.2.** In response, solicitor general Tushar Mehta, representing the government, argued that the timing of applying natural justice principles was crucial. He stressed the need for time-bound processes in the IBC to address financial issues and highlighted that section 7 of the IBC relates only to corporate entities, with no adverse consequences in the initial stages of section 95.

**1.1.3.** A three-judge bench led by Chief Justice D.Y. Chandrachud along with JB Pardiwala and Manoj Misra upheld the constitutional validity of Sections 95(1), 96(1), 97(5), 99(1), 99(2), 99(4), 99(5), 99(6), 100 and 101 of the IBC, 2016 as challenged under Article 32. These provisions include provisions for appointment of the resolution professional, Start of Interim Moratorium on filing of application, Submission of Report by Resolution Professional, Admission of application and Moratorium.

**1.1.4.** The top court ruled that IBC is not retroactive and held that Sections 95 to 100 cannot be deemed unconstitutional simply because they do not give Individual guarantors a chance to be heard before creditors'

insolvency petitions are admitted against them and because the moratorium is automatically imposed upon them at the time the insolvency petition is filed.

1.1.5. SC also rejected the petitioners' claims that these provisions ran against the principle of natural justice. The applicability of principles such as natural justice, the court ruled, depends on the situation and cannot be applied in a one-size-fits-all manner. The court also clarified the role of the resolution professional is of a facilitator and not of an adjudicator, adding that their findings are not binding on the tribunals. Rejecting the challenge, the top court held that the statute does not suffer from any manifest arbitrariness or was violative of Article 14 (equality and equal protection of law)

1.1.6. Further the Parliament has not contemplated a roving enquiry by the resolution professional but an enquiry for recommendation. The resolution professional, after carrying out process, is required to make an ascertainment in terms of clause (6) of section 97.

1.1.7. The court also acknowledge that there were differences with respect to when RP and the AA steps in, and when a moratorium on other legal proceedings is imposed under Parts II (CIRP) and III (Insolvency of Individuals and partnerships) of the IBC and held that differential treatment is justified.

1.1.8. The controversy goes back to 2019 when amendments to the IBC allowed banks to take Individual guarantors to the insolvency court and impose a moratorium on the sale of their assets. The court was ruling on 200+ petitions by Individual guarantors, including by Reliance ADA Group chairman Anil Ambani, Venugopal Dhoot, Sanjay Singal and Kishore Biyani. Other stalwarts to be affected are Vijay Malya (Kingfisher Airlines), Nirav Modi (Fire Star), Rishi Agarwal (ABG Shipyard), Surender Kumar Bhoan (Alok Industries), Arvind Dham (Amtek Auto), Aditya Mittal (Essar Steels), Manoj Gaur (Jaypee Infra) and many more.

## **1.2. Effect of Judgement**

1.2.1. Delay tactics by PG to CD shall be over :- Either get approved Repayment plan from MOC or face Bankruptcy. Earlier PG who wants to prolong their cases or otherwise are attaching their application with this case & automatic stay is granted to them by SC. Till date 200+ applications have been tagged.

1.2.2. Creditors mainly Public Sector Banks (SBI, PNB, Indian Bank, Canara Bank etc) got Diwali Gift as recovery position shall improve.

1.2.3. RP shall also be happy as more business may trigger from Public Sector Banks as all legal challenges get settled till date.

1.2.4. NCLT has to act swiftly now & adjudicate all cases with speed. In fact, most of the NCLT Benches were simply giving dates in Batches for all PG to CD cases even overlooking the cases which doesn't fall under above challenges like adjudication of report filed u/s 106.

## **Honourable Supreme Court Judgement of Lalit Kumar Jain Case**

2. *Lalit Kumar Jain Vs Union of India (Supreme Court of India), Transferred Case (Civil) No. 245/2020, Date of Order- 21-05-2021\*

### **2.1. FACTUAL BACKGROUND OF CASE**

2.1.1. The Hon'ble Apex Court upheld the provisions of the Insolvency and Bankruptcy Code relating to insolvency of Individual guarantors that were brought into force in 2019.

2.1.2. Further the notification has been issued by MCA on 15.11.2019 which has notified the provision of IBC w.r.t. to Individual guarantors. However, validity of the same has been challenged as on 20.11.2019 which is confined to impugned notification.

2.1.3. The petitioners have furnished guarantees in the capacity of directors, promoters, chairman and managing directors of the companies to the banks and financial institutions and the guarantees are invoked and the proceedings are pending against the companies to which they are associated with. The cases which are pending, at different stages such as initiation of insolvency, finalization of resolution plan or non-approval of resolution plan.

2.1.4. Once the impugned notification published many demand notices has been served to petitioner for proposing insolvency proceedings under IB, Code and recovery proceedings initiated after the invocation of guarantees under part-III of Code. (Refer para 2 and 3 of the judgement)

2.1.5. The Petitioners contended that the power conferred upon the Union under Section 1(3) of the Code could not have been resorted to in the manner as to extend the provisions of the Code only as far as they relate to Individual guarantors of corporate debtors. The impugned notification brought into force Section 2(e), Section 78 (except with regard to fresh start process), Sections 79, 94-187 (both inclusive); Section 239(2)(g), (h) & (i); Section 239(2)(m) to (zc); Section 239 (2) (zn) to (zs) and Section 249. (Refer para 4 of the judgement)

### **2.2. ARGUMENTS BY PETITIONER**

2.2.1. The Central Government has acted more than the powers vested in it under Section 1(3) of the IBC. (Refer para 4 of judgement)

2.2.2. The impugned notification is an exercise of excessive delegation and the enforcement of Sections 78, 79, 94-187 etc. in terms of the impugned notification of the Code only in relation to Individual guarantors is

ultra vires the powers granted to the Central Government. As The notification is ultra vires, the provisions of the Code in so far as it notifies provisions of Part III of the Code only in respect of Individual guarantors to corporate debtors. (Refer para 5,7,16 and 19 of the judgement)

2.2.3. The petitioners argue that the impugned notification, to the extent it brings into force Section 2 (e) of the Code with effect from 01.12.2019 is hit by non-application of mind. It is argued that Section 2(e) of the Code, as amended by Act 8 of 2018, came into force with retrospective effect from 23.11.2017. This is duly noted by this court in the case of State Bank of India V. Ramakrishnan, which observed that:

2.2.4. "Though the original Section 2(e) did not come into force at all, the substituted Section 2(e) has come into force w.e.f. 23.11.2017." (Refer para 8 of the judgement)

2.2.5. The part III of the Code does not apply to Individual guarantors to corporate debtors at all and metes out similar treatment to both financial and the operational creditor. The petitioners rely on Swiss Ribbons (P.) Ltd. v. Union of India, where this court upheld the difference in procedure for operational creditors and financial creditors (Refer para 11,12,13,17 of the judgement)

2.2.6. The impugned notification it is ultra vires to the objects and purpose of the Code that the object of the Code is to ensure a company's revival and continuation by protecting from its management and, as far as feasible, to save it from liquidation, thereby maximizing its value. The petitioner relied upon Swiss Ribbons Pvt. Ltd. and Anr. v. Union of India & Ors. and Babulal Vardharji Gurjar v. Veer Gurjar Aluminum Industries Pvt. Ltd. & Anr for this purpose (Refer para 23,27 of the judgement)

2.2.7. The Notification overlooks the co-extensive nature of the liability of the Individual guarantor. Therefore, the petitioners' liability as guarantors under the Individual guarantee would stand completely discharged and relied on the judgment of the Punjab and Haryana High Court in Kundanlal Dabriwala v. Haryana Financial Corporation, which ruled that:

2.2.8. "on a fair reading of the provisions of the Contract Act, I am inclined to hold that as the liability of the surety is co-extensive with that of the principal debtor, if the latter's liability is scale down in an amended decree, or otherwise extinguished in whole or in part by statute, the liability of the surety also is pro tanto reduced or extinguished." (Refer para 14,28,29 of the judgement)

### **2.3. ARGUMENTS BY UNION AND RESPONDENTS**

2.3.1. The amendment by Section 60(2) is to achieve a unified adjudication through the same forum for resolution of issues and disputes concerning corporate resolution processes, as well as bankruptcy and insolvency processes in relation to Individual guarantors to corporate debtors. Therefore, urged that Section 2(e) being complete and distinct is a provision within the meaning of Section 1(3), and the Central government acted intra vires to bring it into force, as well as certain provisions in Part III of the code (Refer para 31,32,33,34 and 39 of the judgement)

2.3.2. The liability of a guarantor is coextensive, joint and several the principal borrower unless the contrary is provided by the contract. Hence, until the debt is paid off to the creditor in entirety, the guarantor is not absolved of its joint and several liability to make payment of the amounts outstanding in favour of the creditor. The rights of a creditor against a guarantor continue even in the event of bankruptcy or liquidation and relied on Maharashtra State Electricity Board Bombay v. Official Liquidator, High Court, Ernakulum & Anr. Therefore, by way of approval of a resolution plan, any release/discharge secured by the principal borrower or entering into a composition with the principal borrower (reference to Section 135 of the Contract Act) cannot discharge the guarantor in any manner whatsoever and relied on the judgement of State Bank of India v. V. Ramakrishnan & Ors (Refer para 43,44,45 of the judgement)

2.3.3. Further R. has relied on many judgements in order to challenge to the validity of legislative provisions on the ground of excessive delegation of legislative power;

2.3.3.1. Raghubar Swarup v. State of U.P

2.3.3.2. Tulsipur Sugar Company

2.3.3.3. Bangalore Woollen, Cotton and Silk Mills v. Bangalore Corporation

2.3.3.4. ITC Bhadrachalam Vs Mandal Revenue Officer

### **2.4. QUESTION OF LAW INVOLVED IN THE CASE**

2.4.1. The position of law in Insolvency and Bankruptcy Code relating to insolvency of Individual guarantors

2.4.2. The Hon'ble Apex Court upheld the liability of the Individual guarantors to the corporate debtors, the provisions of the Insolvency and Bankruptcy Code, 2016 (IBC) upheld

2.4.3. The liability of Individual guarantor to the corporate debtor in case resolution plan is approved.

### **2.5. HELD BY HON'BLE APEX COURT**

The jurisprudence surrounding the insolvency of individual guarantors under the Insolvency and Bankruptcy Code, 2016 (IBC) has evolved through several landmark judicial pronouncements. The following legal questions are central to the interpretation and application of the IBC in the context of individual guarantors to corporate debtors.

2.5.1. The Court upheld the impugned notification to be validly issued. The Court observed that the impugned notification is not an instance of excessive legislative exercise since there is no compulsion in the Code for it to be applicable in its entirety to all individuals at the same time. The exercise of power in issuing



the impugned notification under Section 1(3) is therefore, not ultra vires. The Hon'ble Court also stated that there was an "intrinsic" connection between the Individual guarantors and their corporate debtors.

2.5.2. However, this court has indicated, time and again, that an involuntary act of the principal debtor leading to loss of security, would not absolve a guarantor of its liability. In *Maharashtra State Electricity Board (supra)* the liability of the guarantor (in a case where liability of the principal debtor was discharged under the insolvency law or the company law), was considered. It was held that in view of the unequivocal guarantee, such liability of the guarantor continues and the creditor can realize the same from the guarantor in the view of Section 128 of the Contract Act as there is no discharge under Section 134 of that Act.

2.5.3. The Hon'ble Apex Court held that the resolution plan does not ipso facto discharge a Individual guarantor (of a corporate debtor) of her or his liabilities under the contract of guarantee. As held by this court, that the sanction of a resolution plan and finality imparted to it by Section 31 does not per se operate as a discharge of the guarantor's liability. That the release or discharge of a principal borrower from the debt owed by it to its creditor, by an involuntary process, i.e. by operation of law, or due to liquidation or insolvency proceeding, does not absolve the surety/guarantor of his or her liability, which arises out of an independent contract.

2.5.4. It is held that the impugned notification is legal and valid. It is also held that approval of a resolution plan relating to a corporate debtor does not operate to discharge the liabilities of Individual guarantors (to corporate debtors). The writ petitions transferred cases and transfer petitions are accordingly dismissed in the above terms, without order on cost. The court dismissed the petition challenging notification dated 15.11.2019 and the Insolvency and Bankruptcy (Application to Adjudicating Authority for Insolvency Resolution Process of Individual Guarantors to Corporate Debtors) Rules, 2019.

## 2.6. CONCLUDING REMARKS

2.6.1. Hence in the present case Hon'ble Apex Court settled the principal of law relating to insolvency of Individual guarantors and held that;

2.6.1.1. The Court upheld the impugned notification to be validly issued and exercise of power in issuing the impugned notification under Section 1(3) is therefore, not ultra vires.

2.6.1.2. The release or discharge of a principal borrower from the debt owed by it to its creditor, by an involuntary process, i.e. by operation of law, or due to liquidation or insolvency proceeding, does not absolve the surety/guarantor of his or her liability.

2.6.1.3. The court dismissed the petition challenging notification dated 15.11.2019 and the Insolvency and Bankruptcy (Application to Adjudicating Authority for Insolvency Resolution Process of Individual Guarantors to Corporate Debtors) Rules, 2019.

## 3. *Mahendra Kumar Jajodia versus State Bank of India, Civil Appeal No. 1871/2022* SC Date of Judgement 06.05.2022 NCLAT

3.1. In this case it was held that **even in the absence of any pending Corporate Insolvency Resolution Process or Liquidation proceedings, the application under Section 95(1) of the Insolvency Bankruptcy Code, 2016 against the Individual guarantors of the Corporate Debtor is maintainable** by the virtue of Section 60(1) of the Code before the National Company Law Tribunal having territorial jurisdiction over the place where the Registered office of the Corporate Individual is located.

## 4. *State Bank of India versus V. Ramakrishnan & Anr.* (2018) 17 SCC 394,

4.1. Honourable SC dealt in detail the maintainability of simultaneous application against PG of CD alongwith CIRP proceedings or otherwise proceedings going on at DRT as an Individual. It was concluded that application against PG of CD can be filed alongwith CIRP and if any proceeding against PG as an Individual is pending at DRT under Presidency act etc than it shall be transferred to NCLT where CIRP is going on.

## 5. *Mr. Vikas Aggarwal Vs. Asian Colour Coated Ispat Limited and Ors.* [CA(AT)(Ins.) No.1104, 1105, 1107 & 1108 of 2020] dated 1st March 2024

5.1. Resolution Plan assigns whole Debt to SPV of SRA. NCLAT didn't allow right of subrogation to PG after examining the whole Code although inherent in sec 140 & 141 of the Contract act 1872.

5.2. Sec 238's exceeding powers were used.

## 6. *Laxmi Pat Surana v. Union Bank of India & Anr.* (2021) ibclaw.in 53 SC

6.1. In this case honourable SC answered following 2 questions

6.1.1. Q Whether **Sec 7 proceedings against Corporate Guarantor** against Guarantees given to other than Corporate Person can be initiated or not

6.1.2. A **Yes** Because definition of financial debt u/s 5(8) includes such debt read with definition of default u/s 3(12).

6.1.3. Q The default was committed as on 30.1.2010 and application was filed as on 06.12.2019 (After 9+ years)

6.1.4. A Since **Principal borrower has acknowledged debt on 8.12.2018** and application filed as on 06.12.2019 hence not time barred

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