

A M. D. FROZEN FOODS EXPORTS PVT. LTD. & ORS.

v.

HERO FINCORP LTD.

(Civil Appeal No. 15147 of 2017)

B SEPTEMBER 21, 2017

**[R. F. NARIMAN AND SANJAY KISHAN KAUL, JJ.]**

C *Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) – ss.2(1)(m)(iv),(o),(zd) and 13(2), 31A, 35, 37 – Simultaneous proceedings for recovery under the Arbitration and Conciliation Act, 1996 and the SARFAESI Act – Permissibility of – Appellants borrowed monies from respondent, against security of immovable properties by creating equitable mortgage of seven properties – Account of appellants became a ‘Non-Performing Asset’ (‘NPA’) –*

D *Agreement between the parties contained an arbitration clause and thus, the lender/respondent invoked arbitration clause – Prior to such invocation, a notification was issued specifying ‘Non-Banking Financial Companies’ as financial institutions and directing that provisions of SARFAESI Act shall apply to such financial institutions – Respondent, a Non-Banking Financial Company was notified as*

E *a financial institution – Respondent issued a notice u/s. 13(2), SARFAESI Act for one of the seven properties of the appellants – In the arbitration proceedings, interim orders granted by the Arbitrator restraining appellant from creating any third party interest over the properties – Another notice issued by respondent u/s.13(2),*

F *SARFAESI Act for two more properties of the appellant – Interim order passed in arbitration proceedings, later confirmed – In order to remove any impediment in the SARFAESI proceedings, application filed by respondent to substitute the order of status quo qua parties with the name of the appellants/borrowers – Application allowed –*

G *Appeal filed by appellants u/s.37(2)(b), Arbitration Act, dismissed by High Court – Plea of appellants before Supreme Court that respondent elected its remedy by seeking recovery through arbitration process and, thus, could not subsequently and simultaneously initiate proceedings under SARFAESI Act – Held: The present is not a case of election of remedies – Provisions of the*

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*SARFAESI Act are a remedy in addition to the provisions of the Arbitration Act, 1996 – SARFAESI proceedings and arbitration proceedings, thus, can go hand in hand – Impugned order is well-reasoned order giving cogent reasons – Costs of Rs. 20,000/- imposed – Arbitration and Conciliation Act, 1996 – s.37(2)(b) – Recovery of Debts Due to Banks and Financial Institutions Act, 1993 – Banking/Banks.*

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*Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 – History of – Discussed.*

*Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 – s.2(f) – Remedy under – Nature of – Substantive or procedural – Loan borrowed by appellants – Account of appellants became a 'Non-Performing Asset' ('NPA') - Said loan was borrowed by appellants, prior to the application of the SARFAESI Act to the respondent – Plea of appellants that it was impermissible for respondents to take recourse to provisions of SARFAESI Act in respect of an account already declared an NPA, as that would amount to retrospective application of a substantive law – Held: Scheme of SARFAESI Act sets out an expeditious, procedural methodology, enabling the bank to take possession of the property for non-payment of dues, without intervention of the court – Mere fact that a more expeditious remedy is provided under the SARFAESI Act, does not mean that it is substantive in character or has created an altogether new right – Scheme of the SARFAESI Act, is really to provide a procedural remedy against security interest already created – Therefore, an existing borrower, who was granted financial assistance was covered u/s.2(f) as a 'borrower' – Thus, SARFAESI Act applies to all existing agreements irrespective of the fact whether the lender was a notified 'financial institution' on the date of the execution of the agreement with the borrower or not – Interpretation of Statutes.*

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*Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 – Whether parallel recovery proceedings could go on under the RDDB Act, 1993 and the SARFAESI Act, 2002 – Held: The two Acts are complimentary to each other and simultaneous proceedings can go under both the Acts – Recovery of Debts Due to Banks and Financial Institutions Act, 1993.*

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A *Interpretation of Statutes – Issue of retroactivity – What is – Discussed.*

*Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 – Proceedings under – Nature of – Discussed.*

B **Dismissing the appeal, the Court**

C **HELD: 1. An endeavour towards banking sector reforms, was the setting up of Expert Committees known as ‘The Andhyarujina Committee’, and ‘The Narasimham Committee I and II’. To facilitate the disposal of the claims of recovery made by various banks and financial institutions, the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 (‘RDDB Act’) was enacted, providing for specialized tribunals, exclusively dealing with the jurisdiction of the civil courts. This was followed up by the implementation of the suggestions of the aforesaid two Committees, for bringing in a law empowering financial institutions to take possession of the securities and to sell the same without the intervention of the Court – thus the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. The ‘Statement of Objects and Reasons’ for bringing in the SARFAESI Act, itself shows that the absence of legal provisions for facilitating securitisation of financial assets of banks and financial institutions was the reason for its enactment. [Paras 3, 4][807-G-H; 808-A-C]**

F **2.1 A claim by a bank or a financial institution, before the specified laws came into force, would ordinarily have been filed in the Civil Court having the pecuniary jurisdiction. The setting up of the Debt Recovery Tribunal under the RDDB Act resulted in this specialised Tribunal entertaining such claims by the banks and financial institutions. In fact, suits from the civil jurisdiction were transferred to the Debt Recovery Tribunal. The Tribunal was, thus, an alternative to a Civil Court recovery proceedings. On the SARFAESI Act being brought into force seeking to recover debts against security interest, a question was raised whether parallel proceedings could go on under the RDDB Act and the SARFAESI Act. This issue was clearly answered in favour**

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of such simultaneous proceedings in Transcore and Mathew Varghese case. The aforesaid two Acts are, thus, complimentary to each other and it is not a case of election of remedy. [Para 26, 27 and 29][813-F-G; 814-A-B; 815-H] A

*Transcore v. Union of India & Anr.* (2008) 1 SCC 125: [2006] Suppl. SCR 785; *Mathew Varghese v. M. Amritha Kumar* (2014) 5 SCC 610 : [2014] 2 SCR 736 – relied on. B

2.2 The only twist in the present case is that, instead of the recovery process under the RDDB Act, the concern herein is with respect to an arbitration proceeding. It is trite to say that arbitration is an alternative to the civil proceedings. In fact, when a question was raised as to whether the matters which came within the scope and jurisdiction of the Debt Recovery Tribunal under the RDDB Act, could still be referred to arbitration when both parties have incorporated such a clause, the answer was given in the affirmative. That being the position, the appellants can hardly be permitted to contend that the initiation of arbitration proceedings would, in any manner, prejudice their rights to seek relief under the SARFAESI Act. The jurisdiction of the Civil Court is barred for matters covered by the RDDB Act, but the parties still have freedom to choose a forum, alternate to, and in place of the regular courts or judicial system for deciding their *inter se* disputes. All disputes relating to the “right in *personam*” are arbitrable and, therefore, the choice is given to the parties to choose this alternative forum. A claim of money by a bank or a financial institution cannot be treated as a “right in *rem*”, which has an inherent public interest and would thus not be arbitrable. [Paras 30, 31][816-A-B, D-E] C D E F

*HDFC Bank Limited v. Satpal Singh Bakshi* 2013 (134) DRJ 566 (FB) - approved.

2.3 The present is not a case of election of remedies as was sought to be canvassed by appellants, since the alternatives are between a Civil Court, Arbitral Tribunal or a Debt Recovery Tribunal constituted under the RDDB Act. Insofar as that election is concerned, the mode of settlement of disputes to an arbitral tribunal has been elected. The provisions of the SARFAESI Act G H

A are thus, a remedy in addition to the provisions of the Arbitration Act. The SARFAESI Act was enacted to regulate securitisation and reconstruction of financial assets and enforcement of security interest and for matters connected therewith. Liquidation of secured interest through a more expeditious procedure is what has been envisaged under the SARFAESI Act and the two Acts are cumulative remedies to the secured creditors. [Para 32][816-G-H; 817-A]

2.4 SARFAESI proceedings are in the nature of enforcement proceedings, while arbitration is an adjudicatory process. In the event that the secured assets are insufficient to satisfy the debts, the secured creditor can proceed against other assets in execution against the debtor, after determination of the pending outstanding amount by a competent forum. [Para 33][817-B]

3.1 The issue of whether resort can be had to Section 13 of the SARFAESI Act in respect of debts which have arisen out of a loan agreement/mortgage created prior to the application of the SARFAESI Act to the respondent, though urged before this Court, appears really not to have been canvassed before the High Court. At least, it finds no substantive mention. However, in the larger interest of settling the question of law, this issue is also required to be dealt with. The SARFAESI Act was brought into force to solve the problem of recovery of large debts in NPAs. Thus, the very rationale for the said Act to be brought into force was to provide an expeditious procedure where there was a security interest. It certainly did not apply retrospectively from the date when it came into force. The question is whether, the Act being applicable to the respondent at a subsequent date and thereby allowing the respondent to utilize its provisions with regards to a past debt, would make any difference to this principle. The answer to the same is in the negative. The Act applies to all the claims which would be alive at the time when it was brought into force. Thus, *qua* the respondent or other NBFCs, it would be applicable similarly from the date when it was so made applicable to them. [Paras 35-37][817-E-G; 818-A-B]

3.2 No doubt, till the respondent was not a 'financial institution' within the meaning of Section 2(1)(m)(iv) of the

SARFAESI Act, it was not a 'secured creditor' as defined under Section 2(1)(zd) of the SARFAESI Act and, thus, could not invoke the provisions of the SARFAESI Act. However, the right to proceed under the SARFAESI Act accrued once the Notification was issued. In case of retroactivity, the Parliament takes note of the existing conditions and promulgates the remedial measures to rectify those conditions. In fact the SARFAESI Act, was to remedy such a position and provide a measure against secured interests. The scheme of the SARFAESI Act, is really to provide a procedural remedy against security interest already created. Therefore, an existing borrower, who had been granted financial assistance was covered under Section 2(f) of the said Act as a 'borrower'. Not only this expression, the definition clauses dealing with 'debt securities', 'financial assistance', 'financial assets', etc., clearly convey the legislative intent that the SARFAESI Act applies to all existing agreements irrespective of the fact whether the lender was a notified 'financial institution' on the date of the execution of the agreement with the borrower or not. The scheme of the SARFAESI Act sets out an expeditious, procedural methodology, enabling the bank to take possession of the property for non-payment of dues, without intervention of the court. The mere fact that a more expeditious remedy is provided under the SARFAESI Act does not mean that it is substantive in character or has created an altogether new right. Similarly, the date on which a debt is declared as an NPA would again have no impact. The provisions of the SARFAESI Act would become applicable *qua* all debts owing and live when the Act became applicable to the respondent in terms of the parameters contended by the respondent, namely (i) Existence of a present actionable debt; (ii) Status of the person invoking the jurisdiction is that of a secured creditor; (iii) Assets have been secured in satisfaction of the debt; and (iv) That the debtor/borrower should have been declared an NPA. [Paras 18, 38 and 41][818-C-G; 81-A; 820-B-C; 812-B-C]

*Sarthak Builders Pvt. Ltd. v. Orissa Rural Development Corporation Limited* 2014 SCC OnLine Ori 75;  
*Pradeep Kumar Gupta v. State of U.P* AIR 2010 All 3 – approved.

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- A *M/s. Deccan Chronicles Holdings Limited v. Union of India* AIR 2014 Andhra Pradesh 78 – not approved.
- Mardia Chemicals Ltd. & Ors. v. Union of India & Ors.* (2004) 4 SCC 311 : [2004] 3 SCR 982; *United Bank of India v. Satyawati Tondon* (2010) 8 SCC 110 : [2010] 9 SCR 1; *State Bank's Staff Union (Madras Circle) v. Union of India & Ors.* (2005) 7 SCC 584 : [2005] 3 Suppl. SCR 200; *D.S. Nakara v. Union of India* (1983) 1 SCC 305 : [1983] 2 SCR 165; *Zile Singh v. State of Haryana* (2004) 8 SCC 1 : [2004] 3 Suppl. SCR 400; *Govind Das v. ITO* (1976) 1 SCC 906 : [1976] 3 SCR 44; *CIT v. Vatika Township (P) Ltd.* (2015) 1 SCC 1 : [2014] 12 SCR 1037; *Shyam Sundar & Ors. v. Ram Kumar & Ors.* (2001) 8 SCC 24 : [2001] 1 Suppl. SCR 115; *Garikapatti Veeraya v. N. Subbayah Chowdhary* [1957] SCR 488; *Hitendra Vishnu Thakur v. State of Maharashtra* (1994) 4 SCC 602 : [1994] 1 Suppl. SCR 360; *Subash Chandra Panda v. State of Orissa* AIR 2008 Ori 88; *Unique Engineering Works v. Union of India II* (2004) BC 241 (DB); *Trimbak Damodhar Raipurkar v. Assaram Hiranman Patil & Ors.* [1962] Supp 1 SCR 700 – referred to.
- E *West v. Gwynne* 1911 2 Ch 1; *In re Athlumney. Ex parte Wilson* [1898] 2 Q.B. 547 – referred to.

Case Law Reference

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|---|-------------------------|-------------|---------|
|   | [2004] 3 SCR 982        | referred to | Para 5  |
| F | [2010] 9 SCR 1          | referred to | Para 5  |
|   | [2005] 3 Suppl. SCR 200 | referred to | Para 13 |
|   | [1983] 2 SCR 165        | referred to | Para 13 |
|   | [2004] 3 Suppl. SCR 400 | referred to | Para 14 |
| G | [1976] 3 SCR 44         | referred to | Para 14 |
|   | [2014] 12 SCR 1037      | referred to | Para 14 |
|   | [2001] 1 Suppl. SCR 115 | referred to | Para 14 |
|   | [1957] SCR 488          | referred to | Para 14 |
| H |                         |             |         |

[1994] 1 Suppl. SCR 360	referred to	Para 14	A
[2006] Suppl. SCR 785	relied on	Para 27	
[2014] 2 SCR 736	relied on	Para 27	
2013 (134) DRJ 566 (FB)	approved	Para 31	
2014 SCC OnLine Ori 75	approved	Para 34	B
AIR 2010 All 3	approved	Para 34	
AIR 2014 AP 78	not approved	Para 34	
AIR 2008 Ori 88	referred to	Para 34	
(2004) BC 241 (DB)	referred to	Para 38	C
[1962] 1 Suppl. SCR 700	referred to	Para 39	

CIVIL APPELLATE JURISDICTION: Civil Appeal No. 15147  
of 2017.

From the final Order and Judgment dated 13.07.2017 of the High  
Court of Delhi at New Delhi in ARB. A. (Comm.) No.15 of 2017. D

D. K. Devesh, U.P. Singh, Balakishore, S. K. Roshan, Ms. Khyali,  
Advs. for the Appellant.

C.A. Sundaram, Sr. Adv., Venancio D'costa, Faisal Sherwani,  
Divij Kumar, Ms. Astha, Damandeep Singh Bhalla, Ms. Rohini Musa,  
Abhishek Gupta, Apoorva Tripathi, Zafar Inayat, Advs. for the  
Respondent. E

The Judgment of the Court was delivered by

**SANJAY KISHAN KAUL, J. 1.** Leave granted.

**Prologue:** F

2. Borrowers want to see the colour of their money in haste. The  
problem arises when loans have to be repaid. All kinds of techniques  
were and are deployed, to prolong the legal endeavours to recover the  
debts by lending institutions. Thus, the procedure became cumbersome  
and time consuming, affecting the lending activity. G

3. An endeavour towards banking sector reforms, was the setting  
up of Expert Committees known as 'The Andhyarujina Committee', and  
'The Narasimham Committee I and II'. To facilitate the disposal of the

A claims of recovery made by various banks and financial institutions, the  
Recovery of Debts Due to Banks and Financial Institutions Act, 1993  
B (hereinafter referred to as the 'RDDB Act') was enacted, providing for  
specialized tribunals, exclusively dealing with the jurisdiction of the civil  
courts. This was followed up by the implementation of the suggestions  
of the aforesaid two Committees, for bringing in a law empowering  
financial institutions to take possession of the securities and to sell the  
same without the intervention of the Court – thus the Securitisation and  
Reconstruction of Financial Assets and Enforcement of Security Interest  
Act, 2002 (hereinafter referred to as the 'SARFAESI Act').

C 4. The 'Statement of Objects and Reasons' for bringing in the  
SARFAESI Act, itself shows that the absence of legal provisions for  
facilitating securitisation of financial assets of banks and financial  
institutions was the reason for its enactment. The legal framework relating  
to commercial transactions had not kept pace with the changing  
commercial practices and financial sector reforms. The slow pace of  
D recovery of defaulting loans and the mounting levels of non-performing  
assets of banks and financial institutions had resulted in the setting up of  
the aforesaid two Committees.

E 5. It need be emphasized that any impetus to the industrial  
development of the country by encouraging banks and other financial  
institutions to formulate a liberal policy for grant of loans had to be  
necessarily coupled with a quick and efficacious recovery process. The  
background and salient features of the SARFAESI Act have been  
extensively analysed by this Court in *Mardia Chemicals Ltd. & Ors.*  
*vs. Union of India & Ors.*<sup>1</sup> and in *United Bank of India vs. Satyawati*  
*Tondon*<sup>2</sup>.

F **The Facts:**

G 6. The appellants borrowed monies for their business against  
security of immovable properties by the creation of an equitable mortgage  
by deposit of title documents (seven such properties) on 30.09.2015 and  
21.10.2015. The financial discipline was not adhered to, apparently almost  
from the inception, and the account of the appellants became a 'Non-  
Performing Asset' ('NPA') within the meaning of Section 2(1)(o) of the  
SARFAESI Act on 6.7.2016 itself.

<sup>1</sup>(2004) 4 SCC 311

<sup>2</sup>(2010) 8 SCC 110

7. The agreement *inter se* the parties contained an arbitration clause and thus, the matter went to arbitration on the lender/respondent invoking the arbitration clause on 16.11.2016. However, prior to this invocation, a notification was issued on 05.08.2016 in exercise of powers conferred under sub-clause (iv) of clause (m) of sub-section (1) of Section 2 read with Section 31A of the SARFAESI Act, specifying certain 'Non-Banking Financial Companies' (hereinafter referred to as 'NBFC') covered under clause (f) of Section 45-I of the Reserve Bank of India Act, 1934 (hereinafter referred to as the 'RBI Act'), having assets of Rs.500 crore and above, as financial institutions and directing that, in public interest, the provisions of the SARFAESI Act shall apply to such financial institutions, with the exceptions of provisions of Sections 13 to 19, which shall apply only to such security interest which is obtained for securing repayment of secured debt with principal amount of Rs.1 crore and above. The respondent is at serial No.68 of the said notification.

8. In view of the aforesaid notification, the respondent issued a notice under Section 13(2) of the SARFAESI Act on 24.11.2016 for one of the seven properties. The statement of claim was filed by the respondent before the Arbitrator on 14.12.2016 and interim orders were granted by the Arbitrator on 05.01.2017 restraining the appellant from creating any third party interest over the properties. On 16.02.2017, the respondent issued another notice under Section 13(2) of the SARFAESI Act for two more of the seven properties.

9. Insofar as the arbitration proceedings are concerned, the interim order of 05.01.2017 was confirmed on 03.03.2017. In order to remove any possible impediment in the SARFAESI proceedings, an application was filed by the respondent to substitute the order of status quo *qua* parties with the name of the appellants/borrowers, which was allowed on 19.05.2017.

10. The appellants, aggrieved by this order, filed an appeal under Section 37(2)(b) of the Arbitration and Conciliation Act, 1996 (hereinafter referred to as the 'Arbitration Act'), which has been dismissed by the impugned order dated 13.07.2017 of the learned Single Judge of the Delhi High Court.

A Legal Issues:

11. A perusal of the impugned order and the submissions made by learned counsel for the parties have thrown up the following legal issues for determination:

- B A. Whether the arbitration proceedings initiated by the respondent can be carried on along with the SARFAESI proceedings simultaneously?
- B B. Whether resort can be had to Section 13 of the SARFAESI Act in respect of debts which have arisen out of a loan agreement/mortgage created prior to the application of the SARFAESI Act to the respondent?
- C C. A linked question to question (ii), whether the lender can invoke the SARFAESI Act provision where its notification as financial institution under Section 2(1)(m) has been issued after the account became an NPA under Section 2(1)(o) of the said Act?

D Appellants' case:

- E 12. The appellants appearing through Mr. Guru Krishna Kumar, Senior Advocate sought to contend that Section 13(2) of the SARFAESI Act was a substantive provision and imposed a new burden affecting an existing obligation, thus repelling the plea of the respondent that the said provision was only procedural in nature. The security interest was capable of being enforced under the SARFAESI Act without the intervention of the court or the tribunal, and this right was available notwithstanding any provisions contained in Sections 69 & 69A of the Transfer of Property Act, 1882 [Section 13(1) containing the notwithstanding provision].
- F It was thus pleaded that it was impermissible to take recourse to the provisions of the SARFAESI Act in respect of an account already declared an NPA, as that would amount to retrospective application of a substantive law. The appellants sought to dispute the plea of the absence of any new obligation or additional burden as advanced by the respondent, since the debts had to be repaid within 60 days from the date of issuing the notice under Section 13 of the SARFAESI Act.
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- H 13. The appellants also pleaded that the expression "retrospective" and "retroactive" are almost synonymous and in that behalf referred to the definition of these expressions as found in the 'Black's Law Dictionary' and 'Wharton's Law Lexicon' treating the provisions as synonymous. A reference was also made to the judgment in *State Bank's*

*Staff Union (Madras Circle) vs. Union of India & Ors.*<sup>3</sup> and *D.S. Nakara vs. Union of India*<sup>4</sup> to advance a proposition that the statute could have only prospective application, unless it states in clear terms, to be expressly retrospective. A

14. The appellants referred to a catena of judgments for the legal proposition that a statute which effects substantive rights is presumed to be prospective in operation unless made retrospective and the basis of the same is the principle of 'fairness' - (*Zile Singh vs. State of Haryana*<sup>5</sup>; *Govind Das vs. ITO*<sup>6</sup>; *CIT vs. Vatika Township (P) Ltd.*<sup>7</sup>; *Shyam Sundar & Ors. vs. Ram Kumar & Ors.*<sup>8</sup>; *Garikapatti Veeraya vs. N. Subbayah Chowdhary*<sup>9</sup>; *Hitendra Vishnu Thakur vs. State of Maharashtra*<sup>10</sup>.) B C

15. The reason why the appellants claimed that it was a case of substantive law, and not procedural law, is that more stringent provisions in terms of the entitlement of debtors to liquidate a secured asset, without the intervention of the Court, are brought into force. D

16. Another plea which was sought to be advanced is that the NBFCs stand on a different footing, and that it is not as if *ipso facto*, all NBFCs are included within the ambit of the Act, but only such of the NBFCs as are notified by the Central Government. Further, it was stated that the RDDB Act does not include in its term the NBFC. These factors were stated to be material to exclude the security interest created prior to the application of the Act. E

17. On the first legal issue referred to aforesaid, it has been contended that a notice seeking arbitration was issued first, and that too after the provisions of the SARFAESI Act had been made applicable to the respondent and thus, the respondent had elected its remedy by seeking recovery through the arbitration process and, therefore, could not subsequently and simultaneously initiate proceedings under the SARFAESI Act. F

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<sup>3</sup> (2005) 7 SCC 584

<sup>4</sup> (1983) 1 SCC 305

<sup>5</sup> (2004) 8 SCC 1

<sup>6</sup> (1976) 1 SCC 906

<sup>7</sup> (2015) 1 SCC 1

<sup>8</sup> (2001) 8 SCC 24

<sup>9</sup> (1957) SCR 488

<sup>10</sup> (1994) 4 SCC 602

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A *Respondent's case:*

18. On behalf of the respondent, Mr. C.A. Sundaram, Senior Advocate contended that the effect of notifying the respondent as an NBFC to which the SARFAESI Act applies, would imply that the provisions of the said Act can be used to take recourse to any live and actionable debt, i.e., a debt *in praesenti*. In order to invoke the provision, it was submitted, four factors are of significance:

- i. Existence of a present actionable debt;
- ii. Status of the person invoking the jurisdiction is that of a secured creditor;
- iii. Assets have been secured in satisfaction of the debt; and
- iv. That the debtor/borrower should have been declared an NPA.

19. Learned senior counsel contended that the Act itself was brought into force to eliminate the problem of recovery of the debts by means of the sale of security interest and thus, obviously applied to all the past debts which were still due and pending. The only difference was that *qua* the respondent, it came into force when the notification was issued. It was stated that a contrary interpretation, if taken to the logical conclusion, would imply that when the Act was brought into force, none of the existing security interests would be affected, thereby defeating the very objective of the SARFAESI Act.

20. It was further submitted that insofar as the respondent is concerned, a common notification dated 05.08.2016 specifies the financial parameters in respect of which the said Act would apply. Those parameters are met in the present case and there is no differentiation in the enforcement mechanism contained in Section 13 of the said Act between a bank and an NBFC, as both these institutions are similarly placed.

21. It was contended that the SARFAESI Act did not create any new obligation on the appellants, who are the borrowers required to repay debts secured by mortgaged properties, but only provides a procedure, without the intervention of the Courts to enforce the rights which have already accrued to the lender, by virtue of having lent monies. It is only a new remedy in terms of the manner of such recovery. The legislation itself is procedural in nature.

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22. On the issue of simultaneous proceedings for recovery under the arbitration process and the SARFAESI Act it was contended that there is no prohibition in law from doing so. The process of recovery could have taken place in a civil suit prior to the enactment of the RDDB Act which provides for a specialized forum for recovery of dues. It is settled legal position that both the RDDB Act and the SARFAESI Act can be resorted to simultaneously and thus the arbitration proceedings are only an alternative to the RDDB Act. Section 37 of the SARFAESI Act, in fact, makes it clear that the provisions of the Act are in addition to and are not in derogation of any other law for the time being in force.

**Cleavage of judicial opinions:**

23. The opinions of various High Courts, as cited before us, show that while the Full Bench of the Orissa High Court, as also the Delhi High Court and the Allahabad High Court have taken a view favourable to the respondent in terms of the simultaneous legal processes under the SARFAESI Act and arbitration recovery proceedings, the Andhra Pradesh High Court has taken a divergent view.

**Conclusion:**

24. We have examined the rival contentions and the judicial precedents cited before us. The impugned order is a well-reasoned order giving cogent reasons, but what persuaded us to grant leave and hear the matter finally, was this cleavage of judicial opinions *inter se* the High Courts, requiring this court to settle the law on the point.

25. We now proceed to examine each of the three questions of law framed:

**Question A:**

26. A claim by a bank or a financial institution, before the specified laws came into force, would ordinarily have been filed in the Civil Court having the pecuniary jurisdiction. The setting up of the Debt Recovery Tribunal under the RDDB Act resulted in this specialised Tribunal entertaining such claims by the banks and financial institutions. In fact, suits from the civil jurisdiction were transferred to the Debt Recovery Tribunal. The Tribunal was, thus, an alternative to a Civil Court recovery proceedings.

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A 27. On the SARFAESI Act being brought into force seeking to  
recover debts against security interest, a question was raised whether  
parallel proceedings could go on under the RDDB Act and the  
SARFAESI Act. This issue was clearly answered in favour of such  
simultaneous proceedings in *Transcore vs. Union of India & Anr.*<sup>11</sup>. A  
B later judgment in *Mathew Varghese vs. M. Amritha Kumar*<sup>12</sup> also  
discussed this issue in the following terms:

C “45. A close reading of Section 37 shows that the provisions of  
the SARFAESI Act or the Rules framed thereunder will be in  
addition to the provisions of the RDDB Act. Section 35 of the  
SARFAESI Act states that the provisions of the SARFAESI Act  
will have overriding effect notwithstanding anything inconsistent  
D contained in any other law for the time being in force. Therefore,  
reading Sections 35 and 37 together, it will have to be held that in  
the event of any of the provisions of the RDDB Act not being  
inconsistent with the provisions of the SARFAESI Act, the  
application of both the Acts, namely, the SARFAESI Act and the  
RDDB Act, would be complementary to each other. In this context,  
reliance can be placed upon the decision in *Transcore v. Union of  
India* [(2008) 1 SCC 125 : (2008) 1 SCC (Civ) 116] . In para 64 it  
is stated as under after referring to Section 37 of the SARFAESI  
Act: (SCC p. 162)

E “64. ... According to American Jurisprudence, 2d, Vol. 25, p. 652,  
if in truth there is only one remedy, then the doctrine of election  
does not apply. *In the present case, as stated above, the NPA  
Act is an additional remedy to the DRT Act. Together they  
constitute one remedy and, therefore, the doctrine of election  
F does not apply.* Even according to *Snell's Principles of Equity*  
(31st Edn., p. 119), the doctrine of election of remedies is applicable  
only when there are two or more co-existent remedies available  
to the litigants at the time of election which are repugnant and  
inconsistent. *In any event, there is no repugnancy nor  
G inconsistency between the two remedies, therefore, the doctrine  
of election has no application.*”

(emphasis added)

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<sup>11</sup> (2008) 1 SCC 125

<sup>12</sup> (2014) 5 SCC 610

46. A reading of Section 37 discloses that the application of the SARFAESI Act will be in addition to and not in derogation of the provisions of the RDDB Act. In other words, it will not in any way nullify or annul or impair the effect of the provisions of the RDDB Act. We are also fortified by our above statement of law as the heading of the said section also makes the position clear that application of other laws are not barred. The effect of Section 37 would, therefore, be that in addition to the provisions contained under the SARFAESI Act, in respect of proceedings initiated under the said Act, it will be in order for a party to fall back upon the provisions of the other Acts mentioned in Section 37, namely, the Companies Act, 1956, the Securities Contracts (Regulation) Act, 1956, the Securities and Exchange Board of India Act, 1992, the Recovery of Debts Due to Banks and Financial Institutions Act, 1993, or any other law for the time being in force.”

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28. These observations, thus, leave no manner of doubt and the issue is no more *res integra*, especially keeping in mind the provisions of Sections 35 and 37 of the SARFAESI Act, which read as under:

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**“35. The provisions of this Act to override other laws. –** The provisions of this Act shall have effect, notwithstanding anything inconsistent therewith contained in any other law for the time being in force or any instrument having effect by virtue of any such law.”

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.....

**“37. Application of other laws not barred. –** The provisions of this Act or the rules made thereunder shall be in addition to, and not in derogation of, the Companies Act, 1956 (1 of 1956), the Securities Contracts (Regulation) Act, 1956 (42 of 1956), the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 (51 of 1993) or any other law for the time being in force.”

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29. The aforesaid two Acts are, thus, complimentary to each other and it is not a case of election of remedy.

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A 30. The only twist in the present case is that, instead of the recovery  
process under the RDDB Act, we are concerned with an arbitration  
proceeding. It is trite to say that arbitration is an alternative to the civil  
proceedings. In fact, when a question was raised as to whether the  
B matters which came within the scope and jurisdiction of the Debt  
Recovery Tribunal under the RDDB Act, could still be referred to  
arbitration when both parties have incorporated such a clause, the answer  
was given in the affirmative.<sup>13</sup> That being the position, the appellants  
can hardly be permitted to contend that the initiation of arbitration  
proceedings would, in any manner, prejudice their rights to seek relief  
under the SARFAESI Act.

C 31. The discussion in the impugned order refers to a judgment of  
the Full Bench of the Delhi High Court in *HDFC Bank Limited vs.*  
*Satpal Singh Bakshi*<sup>14</sup> opining that an arbitration is an alternative to the  
RDDB Act. In that context, the learned Single Judge has rightly held  
D that this Full Bench judgment does not, in any manner, help the appellants  
but, in fact, supports the case of the respondent. The jurisdiction of the  
Civil Court is barred for matters covered by the RDDB Act, but the  
parties still have freedom to choose a forum, alternate to, and in place of  
the regular courts or judicial system for deciding their *inter se* disputes.  
All disputes relating to the “right in *personam*” are arbitrable and,  
E therefore, the choice is given to the parties to choose this alternative  
forum. A claim of money by a bank or a financial institution cannot be  
treated as a “right in *rem*”, which has an inherent public interest and  
would thus not be arbitrable.

F 32. The aforesaid is not a case of election of remedies as was  
sought to be canvassed by learned senior counsel for the appellants,  
since the alternatives are between a Civil Court, Arbitral Tribunal or a  
Debt Recovery Tribunal constituted under the RDDB Act. Insofar as  
that election is concerned, the mode of settlement of disputes to an arbitral  
tribunal has been elected. The provisions of the SARFAESI Act are  
thus, a remedy in addition to the provisions of the Arbitration Act. In  
G *Transcore vs. Union of India & Anr. (supra)* it was clearly observed  
that the SARFAESI Act was enacted to regulate securitisation and  
reconstruction of financial assets and enforcement of security interest  
and for matters connected therewith. Liquidation of secured interest

<sup>13</sup> *HDFC Bank Limited v. Satpal Singh Bakshi* - 2013 (134) DRJ 566 (FB)

<sup>14</sup> 2013 (134) DRJ 566 (FB)

through a more expeditious procedure is what has been envisaged under the SARFAESI Act and the two Acts are cumulative remedies to the secured creditors. A

33. SARFAESI proceedings are in the nature of enforcement proceedings, while arbitration is an adjudicatory process. In the event that the secured assets are insufficient to satisfy the debts, the secured creditor can proceed against other assets in execution against the debtor, after determination of the pending outstanding amount by a competent forum. B

34. We are, thus, unequivocally of the view that the judgments of the Full Bench of the Orissa High Court in *Sarthak Builders Pvt. Ltd. vs. Orissa Rural Development Corporation Limited*<sup>15</sup>, the Full Bench of the Delhi High Court in *HDFC Bank Limited vs. Satpal Singh Bakshi (supra)* and the Division Bench of the Allahabad High Court in *Pradeep Kumar Gupta vs. State of U.P.*<sup>16</sup> lay down the correct proposition of law and the view expressed by the Andhra Pradesh High Court in *M/s. Deccan Chronicles Holdings Limited vs. Union of India*<sup>17</sup> following the overruled decision of the Orissa High Court in *Subash Chandra Panda vs. State of Orissa*<sup>18</sup> does not set forth the correct position in law. SARFAESI proceedings and arbitration proceedings, thus, can go hand in hand. C D

Questions B & C E

35. The issue of whether resort can be had to Section 13 of the SARFAESI Act in respect of debts which have arisen out of a loan agreement/mortgage created prior to the application of the SARFAESI Act to the respondent, though urged before us, appears really not to have been canvassed before the learned Single Judge of the Delhi High Court. At least, it finds no substantive mention. We, however, are of the view that in the larger interest of settling the question of law, this issue is also required to be dealt with. F

36. The SARFAESI Act was brought into force to solve the problem of recovery of large debts in NPAs. Thus, the very rationale for the said Act to be brought into force was to provide an expeditious G

<sup>15</sup> 2014 SCC OnLine Ori 75

<sup>16</sup> AIR 2010 All 3

<sup>17</sup> AIR 2014 Andhra Pradesh 78

<sup>18</sup> AIR 2008 Ori 88

A procedure where there was a security interest. It certainly did not apply retrospectively from the date when it came into force. The question is whether, the Act being applicable to the respondent at a subsequent date and thereby allowing the respondent to utilize its provisions with regards to a past debt, would make any difference to this principle. We are of the view that the answer to the same is in the negative.

B 37. The Act applies to all the claims which would be alive at the time when it was brought into force. Thus, *qua* the respondent or other NBFCs, it would be applicable similarly from the date when it was so made applicable to them.

C 38. The Full Bench of the Orissa High Court in *Sarthak Builders Pvt. Ltd. vs. Orissa Rural Development Corporation Limited (supra)* has, in fact, succinctly sets out this aspect. No doubt, till the respondent was not a 'financial institution' within the meaning of Section 2(1)(m)(iv) of the SARFAESI Act, it was not a 'secured creditor' as defined under Section 2(1)(zd) of the SARFAESI Act and, thus, could not invoke the provisions of the SARFAESI Act. However, the right to proceed under the SARFAESI Act accrued once the Notification was issued. The Full Bench referred to a Division Bench judgment of the Uttarakhand High Court in *Unique Engineering Works vs. Union of India*<sup>19</sup> which dealt with the issue of retrospectivity and retroactivity. In case of retroactivity, the Parliament takes note of the existing conditions and promulgates the remedial measures to rectify those conditions. In fact the SARFAESI Act, in our view, was to remedy such a position and provide a measure against secured interests. The scheme of the SARFAESI Act, is really to provide a procedural remedy against security interest already created. Therefore, an existing borrower, who had been granted financial assistance was covered under Section 2(f) of the said Act as a 'borrower'. Not only this expression, the definition clauses dealing with 'debt securities', 'financial assistance', 'financial assets', etc., clearly convey the legislative intent that the SARFAESI Act applies to all existing agreements irrespective of the fact whether the lender was a notified 'financial institution' on the date of the execution of the agreement with the borrower or not. The scheme of the SARFAESI Act sets out an expeditious, procedural methodology, enabling the bank to take possession of the property for non-payment of dues, without intervention of the court. The mere fact that a more expeditious remedy is provided under

<sup>19</sup> II 2004) BC 241 (DB)

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the SARFAESI Act does not mean that it is substantive in character or has created an altogether new right. To accept the argument of the appellants would imply that they have an inherent right to delay the enforcement against the security interest!

39. The catena of judgments referred to by learned senior counsel for the appellants on substantive law not being retrospective in operation, unless expressly stated so in the Act would, thus, have no application to the matter in issue, in view of what we have observed aforesaid. On the other hand, as observed by Buckley, L.J. in *West vs. Gwynne*<sup>20</sup>, retrospective operation is one matter and interference with existing rights is another. In that context, it was ruled that the provisions of the Conveyancing of Law and Property Act, 1892 were held applicable to leases containing a covenant, condition or agreement against assigning, under-letting or parting with possession or disposing of land or property leased without license or consent to all leases whether executed before or after the commencement of the Act. Such a construction was held not to make the Act retrospective in operation but merely effected the future existing rights under all leases whether executed before or after the date of that Act. (Discussed in *Trimbak Damodhar Raipurkar vs. Assaram Hiranman Patil & Ors.*<sup>21</sup>).

40. In a similar vein, are the observations made in the case of *In re Athlumney. Ex parte Wilson*<sup>22</sup>, where the question posed before the Queen's Division Bench was whether Section 23 of the Bankruptcy Act, 1890 was retrospective in its operation. In the aforementioned context, Wright, J., speaking for the Bench, illuminatingly opined:

"Perhaps no rule of construction is more firmly established than this — that a retrospective operation is not to be given to a statute so as to impair an existing right or obligation, *otherwise than as regards matter of procedure*, unless that effect cannot be avoided without doing violence to the language of the enactment. If the enactment is expressed in language which is fairly capable of either interpretation, it ought to be construed as prospective only... it is a general rule that when the Legislature alters the rights of parties by taking away or conferring any right of action, its enactments, unless in express terms they apply to pending actions,

<sup>20</sup> 1911 2 Ch 1 at pp. 11, 12

<sup>21</sup> 1962 Supp (1) SCR 700

<sup>22</sup> [1898] 2a Q.B. 547

- A do not affect them...*It is said that there is one exception to that rule, namely, that, where enactments merely affect procedure and do not extend to rights of action, they have been held to apply to existing rights, and it is suggested here that the alteration made by this section is within that exception...*" (Emphasis supplied)
- B 41. Similarly, the date on which a debt is declared as an NPA would again have no impact. We are, thus, of the view that the provisions of the SARFAESI Act would become applicable *qua* all debts owing and live when the Act became applicable to the respondent in terms of the parameters contended by learned senior counsel for the respondent
- C and enlisted at serial Nos. i to iv in para 18.
42. We are, thus, of the view that the appeal is completely devoid of merit, and is only an endeavour to prolong the ultimate "date of judgment" for the appellants to meet their obligations.
- D The appeal is dismissed with costs quantified at Rs.20,000/-.