(2026) 07 NCLAT CK 0042

In the National Company Law Appellate Tribunal, Pricipal Bench, New Delhi

Case No : Company Appeal (AT) (Ins.) No. 636 of 2026

Wild Dreams Trading Company Pvt. Ltd. APPELLANT

Vs

Ascendancy Financial Services Pvt. Ltd. RESPONDENT

Date of Decision : 13-07-2026

Acts Referred:
Insolvency and Bankruptcy Code, 2016 — Section 4, 5(8), 7, 61

Citation : (2026) 07 NCLAT CK 0042

Hon'ble Judges : Justice N. Seshasayee, Member (Judicial);Arun Baroka, Member (Technical);Indevar Pandey, Member (Technical)

Bench : Full Bench

Advocate : For Appellant: Mr. Tishampati Sen, Mr. Mukul Kulhari and Ms. Riddhi Sancheti, Advocates.

Final Decision : Allowed

Judgement

INDEVAR PANDEY, MEMBER (T)

The present Company Appeal has been preferred under Section 61 of the Insolvency and Bankruptcy Code, 2016 (hereinafter referred to as **'Code'**) by **Wild Dreams Trading Company Pvt. Ltd. (Financial Creditor)**, assailing the Judgment dated **03.02.2026** passed by the National Company Law Tribunal, Chandigarh Bench (Court-I) **(Adjudicating Authority)** in **CP (IB) No. 335 of 2024**, whereby the Adjudicating Authority dismissed the Appellant's application filed under Section 7 seeking initiation of the Corporate Insolvency Resolution Process **(CIRP)** against Ascendancy Financial Services Pvt. Ltd. **(Corporate Debtor)**. The Adjudicating Authority held that the interest component could not be added to the claim of the Financial Creditor merely on the basis of Tax Deducted at Source (TDS) deductions and consequently concluded that the amount of default fell below the statutory threshold prescribed under Section 4 of the Code. Aggrieved by the dismissal of its Section 7 application despite the acknowledgment by the Corporate Debtor of the entire outstanding financial debt, including the interest component; the Appellant has preferred the present appeal challenging the legality and correctness of the Impugned Judgment.

Brief Facts of the Case

2. The brief facts of the case relevant to this appeal are given below:

i. The Appellant, Wild Dreams Trading Company Pvt. Ltd., had been extending financial assistance to the Respondent, Ascendancy Financial Services Pvt. Ltd., in the form of Inter Corporate Deposits (ICDs) over several years. Between 22.07.2016 and 18.07.2024, the Appellant advanced an aggregate sum of Rs.2,32,00,000/- to the Respondent under an oral and mutually agreed arrangement whereby each ICD was repayable either on demand by the Appellant or within seven years from the respective date of disbursement, or within such other period as might be mutually agreed between the parties, whichever occurred earlier. The parties had also mutually agreed that the Respondent would pay interest at the rate of 11.50% per annum on the ICDs advanced during the financial years 2016-17 and 2017-18, which was subsequently revised to 8% per annum in accordance with prevailing market standards.

ii. Pursuant to the aforesaid understanding, the Respondent borrowed various sums from the Appellant in the form of eleven Inter Corporate Deposits (ICDs) advanced in different tranches during the period between 22.07.2016 and 18.07.2024. The Appellant initially advanced six ICDs during the period 2016-2017, followed by three ICDs in the year 2022 and two further ICDs in the year 2024, thereby extending total financial assistance of Rs.2,32,00,000/- to the Respondent, which was repayable along with the agreed interest component.

iii. The Respondent thereafter made repayments towards the principal amounts of certain ICDs from time to time. The Respondent repaid the principal amount of the First to Eighth ICDs, either fully or in parts, including payments made towards the First ICD in 2017 and 2023 and substantial repayments towards other ICDs during May 2023. However, despite repayment of the principal amounts, the Respondent failed to pay the accrued interest on any of the said ICDs. Further, only a partial payment of Rs.1,00,000/- was made towards the Ninth ICD, while the remaining amount under the Ninth ICD along with the entire principal amounts advanced under the Tenth and Eleventh ICDs remained unpaid. Consequently, according to the Appellant, a principal amount of Rs.62,00,000/- along with the accrued interest component continued to remain outstanding against the Respondent.

iv. According to the Appellant, despite making partial repayments of principal amounts under certain ICDs, the Respondent persistently failed to honour its obligation to pay interest on any of the borrowings. The Appellant asserted that the Respondent also failed to repay the outstanding principal amount under the Ninth ICD as well as the entire principal amounts advanced under the Tenth and Eleventh ICDs. Consequently, a principal sum of Rs.62,00,000/- remained outstanding, while interest amounting to Rs.45,44,700/- (net of TDS) up to 30.09.2024 had accrued on the unpaid financial assistance. The Appellant further alleged that although the Respondent had not remitted the interest to the Appellant, it had consistently deducted and deposited TDS on the interest component with the statutory authorities, which according to the Appellant constituted an acknowledgment of its liability to pay the agreed interest.

v. Following the continued non-payment, the Appellant addressed a Demand Letter dated 13.09.2024 calling upon the Respondent to repay a total outstanding amount of Rs.1,07,08,010/-, comprising Rs.62,00,000/- towards the principal and Rs.45,08,010/- towards accrued interest up to August 2024, within ten days. The demand letter was delivered by hand and was duly received by the Respondent on the very same day.

vi. In response to the said demand, the Respondent, by its letter dated 19.09.2024, informed the Appellant that it was in the process of arranging funds for repayment of Rs.1,07,08,010/- and sought an extension of two weeks to clear the dues. According to the Appellant, this communication constituted an express acknowledgment of the entire outstanding financial debt, including both the principal and interest components. However, upon expiry of the requested period on 03.10.2024, the Respondent failed to make payment of the admitted dues.

vii. Owing to the continued default, the Appellant issued a second demand letter on 08.10.2024, once again requiring the Respondent to repay the outstanding financial debt within seven days, failing which appropriate legal proceedings would be initiated. In reply dated 10.10.2024, the Respondent requested a further extension of a few days and attributed its inability to repay the debt to significant financial difficulties arising from delays in receiving payments from its own debtors and creditors.

viii. As the Respondent continued to default despite repeated opportunities, the Appellant instituted Company Petition (IB) No. 335 of 2024 under Section 7 of the Insolvency and Bankruptcy Code, 2016 before the National Company Law Tribunal, Chandigarh Bench on 21.12.2024, seeking initiation of the Corporate Insolvency Resolution Process against the Respondent on the basis of the alleged financial debt and default.

ix. The Adjudicating Authority, vide the Impugned order dated 03.02.2026, dismissed the Section 7 application primarily on the ground that the interest component calculated on the principal amount could not be added merely on the basis of TDS deductions and, consequently, held that the alleged default amount fell below the statutory threshold prescribed under Section 4 of the Code.

x. Aggrieved by the dismissal of its Section 7 application despite contending that the Respondent had expressly acknowledged the entire outstanding financial debt, including the interest component, and that the debt exceeded the statutory threshold under the Insolvency and Bankruptcy Code, the Appellant instituted the present appeal, challenging the legality, correctness and sustainability of the Impugned Judgment passed by the Adjudicating Authority.

ANALYSIS AND FINDINGS

3. We have heard Learned Counsel appearing for the Appellant and gone through the documents on record. Despite service of notice, the Respondent has chosen not to appear before this Tribunal and has been proceeded ex parte. However, merely because the Respondent has remained absent in the present Appeal, this Tribunal is still required to examine the correctness of the Impugned Order dated 03.02.2026 passed by the Adjudicating Authority, and determine whether the ingredients necessary for admission of an application under Section 7 of the Code were satisfied on the basis of the material available on record.

4. The present Appeal arises from the dismissal of the Application filed by the Appellant under Section 7 of the Code seeking initiation of Corporate Insolvency Resolution Process against the Corporate Debtor. The Adjudicating Authority rejected the Application primarily on the ground that the principal outstanding amount was only Rs.62,00,000/- and that the interest component claimed by the Financial Creditor could not be added merely on the basis of TDS deductions. On such reasoning, the Adjudicating Authority concluded that the default amount did not cross the minimum threshold prescribed under Section 4 of the IBC and consequently dismissed the Section 7 Application.

5. The submission advanced by Learned Counsel for the Appellant is that the Adjudicating Authority has proceeded on an incorrect appreciation of the factual and legal position. It is contended that the Appellant had advanced various Inter Corporate Deposits ("ICDs") to the Corporate Debtor from time to time aggregating to Rs.2,32,00,000/-, which carried an agreed rate of interest. It is further submitted that although the Corporate Debtor repaid certain principal amounts, it failed to discharge the complete outstanding liability, resulting in an unpaid principal amount of Rs.62,00,000/- along with accrued interest. According to the Appellant, the total amount due and payable by the Corporate Debtor was Rs.1,07,08,010/-, which was well above the threshold prescribed under Section 4 of the Code.

6. The Appellant has further submitted that the present case was not one where interest liability was sought to be established only through TDS deductions. It is argued that the Adjudicating Authority failed to consider the most material document on record, namely the letter dated 19.09.2024 issued by the Corporate Debtor itself, wherein the Corporate Debtor acknowledged the outstanding amount of Rs.1,07,08,010/- and sought time for arranging funds to repay the same. The Appellant therefore submits that once the Corporate Debtor had itself acknowledged the liability comprising both principal and interest, there was no occasion for the Adjudicating Authority to exclude the interest component while determining the threshold requirement.

7. Before examining the correctness of the Impugned Order, it is necessary to notice the scope of enquiry contemplated under Section 7 of the IBC. At the stage of considering an application filed by a Financial Creditor, the Adjudicating Authority is required to satisfy itself regarding: (i) existence of a financial debt; (ii) occurrence of default; and (iii) completeness of the application. The enquiry is not in the nature of a recovery proceeding but is limited to determining whether a financial debt exceeding the statutory threshold exists and whether there has been a default in repayment of such debt.

8. Section 5(8) of the IBC defines "financial debt" as a debt along with interest, if any, which is disbursed against consideration for the time value of money. The same is extracted below:

Section 5(8)

(8) *"financial debt" means a debt alongwith interest, if any, which is disbursed against the consideration for the time value of money and includes---*

9. The expression itself makes it clear that where interest forms part of the agreed financial arrangement between the parties, such interest cannot be artificially separated while determining the amount of financial debt. The legislative intent behind Section 5(8) is to include the complete financial obligation arising from a transaction involving time value of money and not merely the original principal amount advanced.

10. In the present case, the material placed on record indicates that the Corporate Debtor had received financial assistance from the Appellant in the form of ICDs. The nature of the transaction as financial assistance has not been disputed. The record further reflects that the ICDs were not gratuitous advances, but were accompanied by an understanding regarding payment of interest. The Appellant's case is supported not merely by unilateral calculations of interest, but also by the conduct of the Corporate Debtor, including deduction of TDS on the interest component and its subsequent correspondence acknowledging the outstanding liability.

11. At this stage, it becomes necessary to consider the correspondence exchanged between the parties prior to initiation of proceedings under Section 7 of the Code. The Financial Creditor issued a **Demand Letter dated 13.09.2024** calling upon the Corporate Debtor to repay the total outstanding amount of Rs.1,07,08,010/-, comprising Rs.62,00,000/- towards the principal amount and Rs.45,08,010/- towards the accrued interest component. The said communication clearly reflected that the claim of the Financial Creditor was not confined only to the principal amount but also included the interest payable on the ICDs advanced to the Corporate Debtor. The same has been extracted below:

[An exhibit is reproduced here in the original judgment.]

12. The response of the Corporate Debtor to the aforesaid Demand Letter assumes significance. By its **Reply dated 19.09.2024**, the Corporate Debtor did

not dispute either the amount claimed or the liability towards payment of interest. On the contrary, the Corporate Debtor stated that it was in the process of arranging funds for repayment of the amount of Rs.1,07,08,010/-and requested a period of two weeks for making the payment. The said communication amounts to a clear acknowledgment of the outstanding liability comprising both principal and interest components. Relevant document has been extracted below:

[An exhibit is reproduced here in the original judgment.]

13. Even thereafter, in response to the **second Demand Letter** dated **08.10.2024**, the Corporate Debtor, vide **communication dated 10.10.2024**, did not dispute either the outstanding amount or the interest component and instead sought further time for repayment on account of financial difficulties.

14. Thus, the present case cannot be examined merely from the perspective of whether deduction of TDS independently establishes liability towards interest. The Demand Letter dated 13.09.2024, when read together with the Corporate Debtor's Reply dated 19.09.2024, clearly demonstrates that the Corporate Debtor was aware of the complete claim raised against it and nevertheless sought time for repayment instead of disputing the interest component. The acknowledgment of liability, coupled with the admitted ICD transactions and TDS deductions, establishes the existence of financial debt exceeding the statutory threshold prescribed under Section 4 of the Code.

15. In order to substantiate the aforesaid outstanding liability and the manner in which the total financial debt was computed, the Financial Creditor had placed on record the calculation of interest payable on the ICDs along with details of TDS deposited on such interest component which is available on page nos. 111 and 112 of appeal paper book, same is extracted below:

[An exhibit is reproduced here in the original judgment.]

[An exhibit is reproduced here in the original judgment.]

16. The aforesaid calculation indicates that apart from the outstanding principal amount of **Rs.62,00,000/-**, an interest component of **Rs.45,08,010/- had accrued**, thereby taking the total outstanding financial debt to **Rs.1,07,08,010/-**. The said material, when considered along with the subsequent acknowledgment by the Corporate Debtor, demonstrates that the claim was not based merely upon TDS deductions but upon the overall financial arrangement between the parties.

17. The present case was not one where the Financial Creditor relied only upon TDS entries to create an interest liability. The TDS deductions were only one circumstance forming part of the overall chain of evidence. The acknowledgment dated 19.09.2024, the admitted receipt of ICD amounts, the previous repayment conduct of the Corporate Debtor, and the absence of any contemporaneous denial of interest liability were all relevant factors which ought to have been considered cumulatively. The Adjudicating Authority was required to examine the

entire transaction and could not isolate one piece of evidence while disregarding other relevant documents.

18. It is true that there was no written agreement executed between the parties specifically recording the rate of interest payable on the ICDs. However, the absence of a written agreement by itself cannot be a ground to disregard the interest component when the surrounding circumstances and subsequent conduct of the parties demonstrate the existence of such an understanding. The payment of interest was based on the mutual oral arrangement between the parties, which stood corroborated by the calculation of interest, deduction and deposit of TDS on such interest, and the subsequent communications exchanged between the parties acknowledging the outstanding liability. Thus, the interest component claimed by the Financial Creditor cannot be treated as a unilateral claim unsupported by material evidence.

19. The Adjudicating Authority, while passing the Impugned Order, appears to have confined its consideration only to the question whether TDS deductions by themselves could establish an agreement to pay interest. The Adjudicating Authority proceeded on the premise that since the principal outstanding amount was Rs.62,00,000/-, the threshold under Section 4 was not satisfied. However, such an approach ignores the statutory definition of financial debt, which expressly includes interest, if applicable. The threshold requirement under Section 4 is to be examined with reference to the total amount of default in respect of the financial debt and not by excluding a legally payable interest component forming part of such debt.

20. We are conscious that proceedings under the IBC cannot be used as a substitute for recovery proceedings and that disputed claims cannot be mechanically admitted merely on the assertion of a creditor. However, the facts of the present case disclose more than a mere claim for recovery. The Corporate Debtor had availed ICD facilities, had made repayments towards the same, had acknowledged its obligation to repay the outstanding amount and had sought time for arranging funds. These circumstances establish the existence of financial debt and occurrence of default within the meaning of the Code.

21. In view of the aforesaid discussion, we are of the considered opinion that the Adjudicating Authority erred in rejecting the Section 7 Application by excluding the interest component from consideration. The Impugned Order failed to appreciate the cumulative effect of the documents available on record and proceeded on a narrow consideration that interest was claimed only on the basis of TDS deductions. The acknowledgment of liability by the Corporate Debtor and the admitted financial transactions between the parties clearly established that the outstanding financial debt exceeded the threshold prescribed under Section 4 of the IBC.

22. We accordingly hold that the Impugned Order dated 03.02.2026 passed by the Adjudicating Authority cannot be sustained. The Appellant had successfully

established the existence of financial debt and default exceeding the statutory threshold required under Section 7 of the IBC. Accordingly, the Appeal is allowed, with the further direction that the Corporate Debtor/ Respondent is allowed 15 days' time from the date of issue of this order for making full payment of outstanding debt along with interest due. In case the Respondent fails to make the payment, the Adjudicating Authority would admit the Section 7 petition and issue appropriate orders initiating CIRP Proceedings against the Respondent after a period of 15 days from the date of this order. Pending IA's, if any, are closed. No order as to costs.