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Entries in balance sheets amount to acknowledgment of debt under Section 18 of the Limitation Act, 1963 even if creditor is not specifically named

The Hon'ble Supreme Court of India ("Supreme Court"), in the case of *IL&FS Financial Services Ltd. vs. Adhunik Meghalaya Steels Pvt. Ltd.*¹, held that entries in a company's balance sheet acknowledging outstanding borrowings constitute a valid acknowledgment of debt under Section 18 of the Limitation Act, 1963 ("Limitation Act"), even if the creditor is not specifically named within the balance sheet. The Supreme Court further clarified that in cases where the limitation period was set to expire post February 28, 2022, the entire period from March 15, 2020, to February 28, 2022, will stand excluded in terms of Supreme Court's orders in *In Re: Cognizance for Extension of Limitation* ("SC COVID Order").²

Brief facts

The judgement has been passed in an appeal arising out of dismissal of the application under Section 7 of the Insolvency and Bankruptcy Code, 2016 ("IBC") filed by IL&FS Financial Services Ltd. ("Appellant") against Adhunik Meghalaya Steels Pvt. Ltd. ("Respondent"), on the ground of limitation.

The Appellant had extended a secured term loan facility of INR 30,00,00,000 (Indian Rupees thirty crore) to the Respondent under a loan agreement secured by, *inter alia*, a pledge over 8,10,804 (eight lakh ten thousand eight hundred and four) shares of the Respondent. On March 1, 2018, Respondent's loan account was classified as a Non-Performing Asset ("NPA"). On January 15, 2024, the Appellant filed an application under Section 7 of IBC ("Application") before the National Company Law Tribunal, Guwahati Bench ("NCLT") alleging default to the tune of INR 55,45,00,000 (Indian Rupees fifty-five crore forty-five lakh). The Application mentioned 'March 1, 2018', as the date of default.

To satisfy the NCLT on limitation, the Appellant relied on the Respondent's audited financial statements for the financial years 2015–2020, particularly the balance sheet for financial year 2019–2020, signed by the board of directors on August 12, 2020, which reflected the outstanding borrowings³. The Appellant contended that the balance sheet reflected secured borrowings, including the unpaid loan, and that the accompanying cash flow statement disclosed no repayment towards the outstanding amount, thereby constituting an acknowledgment of debt under Section 18 of the Limitation Act.

¹ Civil Appeal No. 5787 of 2025 (decided on July 30, 2025)

² *Suo Motu Writ Petition (C) No. 3 of 2020*

³ The Appellant also invoked the Supreme Court's orders in *Re: Cognizance for Extension of Limitation (Suo Motu Writ Petition (C) No. 3 of 2020)*, which excluded the COVID-19 period from March 15, 2020, to February 28, 2022, from the computation of limitation.

The Respondent raised an objection that since the balance sheet did not specifically name the Appellant, it could not be construed as an acknowledgment of a jural relationship or liability owed to the Appellant.

The NCLT dismissed the Application on the ground that the balance sheet for the financial year 2019–2020 did not contain a specific reference to the Appellant, and held that the Application was barred by limitation, the period having expired on May 30, 2022. The National Company Law Appellate Tribunal (“NCLAT”) affirmed this view. Aggrieved, the Appellant thereafter filed a civil appeal before the Supreme Court.

Issues

Whether the Application filed by the Appellant on January 15, 2024, was barred by limitation in context of the following issues:

1. Whether the entry in the balance sheet for financial year 2019–2020 constituted a valid acknowledgment of debt under Section 18 of the Limitation Act, even if it did not specifically mention the name of the creditor?
2. If so, whether the Supreme Court’s order in the SC COVID Order applied to exclude the COVID-19 period from the computation of limitation?

Findings and analysis

The Supreme Court allowed the civil appeal and set aside the judgments of the NCLT and NCLAT, holding that the Application filed by the Appellant was not barred by limitation.

The Supreme Court held as follows:

1. reiterating the settled position under Section 238A of the IBC, the Supreme Court confirmed that the provisions of the Limitation Act apply to proceedings under the IBC, and that Article 137 of the Constitution of India governs applications filed thereunder. Thus, the period of limitation would be 3 (three) years from the date when the right to apply accrues. In the present case, since the account was declared a NPA on March 1, 2018, the initial period of limitation would have expired on February 28, 2021;
2. the Supreme Court relied on its earlier decision in *Asset Reconstruction Company (India) Ltd. vs. Tulip Star Hotels Ltd.*⁴ to hold that entries in a company’s duly signed balance sheet can constitute a valid acknowledgment of debt under Section 18 of the Limitation Act, thereby extending the limitation period. It clarified that such acknowledgment reflects a subsisting jural relationship between the debtor and the creditor and need not name the creditor explicitly;
3. applying this principle, the Supreme Court held that the Respondent’s balance sheet for the financial year 2019–2020, signed on August 12, 2020, recorded the outstanding borrowings and constituted a valid acknowledgment of liability. The Supreme Court rejected the Respondent’s argument that the absence of the Appellant’s name invalidated the acknowledgment. Relying on *Vidyasagar Prasad vs. UCO Bank and Anr.*⁵, it clarified that an unequivocal acknowledgment of debt suffices for the purposes of Section 18 of the Limitation Act, even without identifying the creditor by name;
4. the Supreme Court further observed that acknowledgment must be construed contextually. It held that the balance sheet for financial year 2019–2020 could not be viewed in isolation but had to be read alongside the Respondent’s audited financial statements from previous years, which consistently disclosed the same liability. This continuity of entries, in its view, clearly indicated a continuing acknowledgment of debt. Citing *Khan Bahadur Shapoor Fredoom Mazda vs. Durga Prasad*⁶, the Supreme Court reiterated that a liberal interpretation of acknowledgment

⁴ (2019) 10 SCC 572

⁵ 2024 SCC OnLine SC 2993

⁶ 1961 SCC OnLine SC 147

is permissible under Section 18 of the Limitation Act, provided the existence of a jural relationship is evident from the document and surrounding circumstances; and

5. relying on the SC COVID Order, the Supreme Court excluded the period from March 15, 2020, to February 28, 2022, from the computation of limitation. Accordingly, the acknowledgment dated August 12, 2020, extended the limitation by 3 (three) years up to August 11, 2023. After applying the COVID-19 exclusion, the limitation recommenced on March 1, 2022, and remained valid until February 28, 2025. Therefore, the Application filed on March 4, 2022, was held to be well within time.

In light of the above findings, the matter was remitted to the NCLT to decide the Application on merits, treating it as one filed within limitation.

Conclusion

The Supreme Court's decision marks a significant reaffirmation of the principle that entries in a company's balance sheet can constitute a valid acknowledgment of debt under Section 18 of the Limitation Act, even if the specific creditor is not named. The Supreme Court acknowledged a subsisting liability and not the technicality of naming individual creditors, provided that such acknowledgment is unequivocal and contextually supported.

By rejecting the narrow interpretation adopted by the NCLT and NCLAT, and instead aligning with its own consistent jurisprudence, the Supreme Court reinforced a commercially pragmatic and legally robust approach to limitation under the IBC. The judgment underscores that audited financial statements, when duly signed and statutorily compliant, are sufficient to extend limitation, especially when viewed in continuity across financial years.

This ruling will bring greater clarity and certainty for creditors relying on financial disclosures to preserve their rights under the IBC and is a welcome addition to the evolving jurisprudence on the interplay between company law, insolvency law, and the Limitation Act. Further, the Supreme Court has also clarified the proper application of the SC COVID Order.

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