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National Company Law Appellate Tribunal holds that non-conversion of Optionally Convertible Debentures does not extinguish financial debtor bar insolvency proceedings

The National Company Law Appellate Tribunal (“NCLAT”), in *Arvind Kumar vs. Beacon Trusteeship Limited and Anr.*¹, dismissed an appeal challenging the admission of a petition under Section 7² of the Insolvency and Bankruptcy Code, 2016 (“IBC”) by the National Company Law Tribunal, New Delhi (“NCLT”). The NCLAT held that failure to complete the statutory and corporate formalities required for conversion of Optionally Convertible Debentures (“OCDs”) into equity shares prevents extinguishment of financial debt. Consequently, the debenture holder remained a financial creditor entitled to exercise the put option under the Debenture Trust Deed (“DTD”) and initiate insolvency proceedings upon non-redemption.

Brief facts

1. Arcturus Developers Private Limited (“**Corporate Debtor**”), a real estate company, raised funds by issuing 50,00,000 (fifty lakh) OCDs of face value INR 1,000 (Indian Rupees one thousand) each under a DTD dated July 29, 2019 executed in favour of Beacon Trusteeship Limited, acting as debenture trustee for the debenture holders (“**Financial Creditor**”). The OCDs carried a tenure of 60 (sixty) months from allotment and were redeemable at maturity together with a redemption premium.
2. Under the DTD, the Financial Creditor possessed the right to require conversion of the OCDs into equity shares or compulsorily convertible debentures upon issuance of a conversion notice. Conversion notices dated January 6, 2021, and January 5, 2024, extended the period for completing conversion formalities up to July 5, 2025.
3. The Corporate Debtor failed to complete the statutory and corporate actions necessary to effect conversion, including allotment of shares, regulatory filings, and activation of the International Securities Identification Number (“**ISIN**”), and admitted that conversion could not be effected due to expiry of the ISIN.
4. After expiry of the original 60 (sixty) month tenure, the Financial Creditor exercised the put option under Clause 10 of the DTD on January 7, 2025, demanding redemption of INR 1,258,73,33,609 (Indian Rupees one thousand two hundred fifty-eight crore seventy-three lakh thirty-three thousand six hundred and nine) within 7 (seven) days. The Corporate Debtor disputed the said notice, asserting that the conversion period was still subsisting.

¹ Company Appeal (AT) (INS) No. 171 of 2026 (decided on February 25, 2026)

² Section 7 of the IBC enables a financial creditor, either individually or jointly, to initiate the corporate insolvency resolution process against a corporate debtor upon occurrence of a default in repayment of a financial debt.

5. Upon failure to redeem the OCDs, the Financial Creditor filed a petition under Section 7 of the IBC, which was admitted by the NCLT on January 20, 2026. Aggrieved by this order, the Corporate Debtor preferred an appeal before the NCLAT.

Issue

Whether failure to complete statutory and corporate actions for conversion of OCDs into equity shares extinguishes the financial debt and precludes the debenture holder from exercising the put option and initiating proceedings under Section 7 of the IBC?

Findings and analysis

The NCLAT dismissed the appeal and upheld the admission of the Section 7 petition, holding that the Corporate Debtor had committed default and that the debenture holder remained a financial creditor. The NCLAT reasoned as follows:

1. the NCLAT held that Clause 6(b) of the DTD, which provides that OCDs will be deemed converted from the date of conversion notice, cannot be read in isolation. It must be read conjunctively with Clause 6(c) of the DTD, which mandates completion of all statutory requirements such as allotment of shares, increase of authorised capital, filings with the registrar of companies, and activation of ISIN. In the absence of these steps, the deeming provision is inoperative;
2. the NCLAT noted the Corporate Debtor's own admission that conversion could not be effected due to expiry of ISIN and lack of necessary approvals. This established that no actual conversion took place and the debt remained outstanding;
3. relying on Clause 11 of the DTD, the NCLAT held that failure to convert the OCDs constituted an event of default, entitling the debenture holder to exercise the put option and seek redemption. Non-payment pursuant to the put option notice amounted to default under the IBC;
4. the NCLAT rejected reliance on internal board resolutions, shareholder resolutions, and balance sheet entries, holding that statutory compliance and corporate actions cannot be substituted by internal approvals or unilateral accounting treatment; and
5. the NCLAT concurred with the NCLT that, in the absence of actual allotment of securities, activation of ISIN, and filing of Form PAS-3, the debenture holder continued to be a creditor entitled to enforce its rights under the IBC.

Conclusion

The NCLAT's decision clarifies that conversion of OCDs is not effectuated merely upon issuance of a conversion notice or contractual deeming provision. Conversion requires strict compliance with statutory and corporate formalities, failing which the financial debt subsists and the debenture holder retains creditor status.

This ruling has significant implications for structured finance transactions and insolvency litigation. It reinforces creditor protections by preventing corporate debtors from relying on incomplete conversion processes to defeat repayment obligations. The decision affirms that contractual deeming clauses cannot override mandatory statutory requirements and strengthens the pro-creditor framework of the IBC by ensuring that financial instruments retain enforceability until legally perfected conversion occurs.

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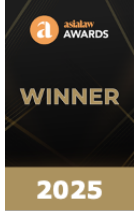
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