

IBC DOSSIER

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STATE BANK OF INDIA Vs. INDIA POWER CORPORATION LIMITED

Brief Facts

In the present case, the issue revolved around the invocation of a corporate guarantee provided by India Power Corporation Limited (IPCL) for loans advanced by State Bank of India (SBI) to a third-party borrower. SBI had granted credit facilities to the borrower, and IPCL, acting as a corporate guarantor, executed a guaranteed agreement to secure the repayment of the loan in the event of default by the borrower. As per the agreement, IPCL was obligated to repay the loan if the borrower failed to meet its obligations.

When the borrower defaulted on the loan, SBI sought to recover the dues by invoking the corporate guarantee. IPCL, however, contested this, arguing that the guarantee was not enforceable due to several factors. They claimed that SBI had failed to comply with certain procedural requirements under the guaranteed agreement, such as providing adequate notice before invoking the guarantee. IPCL further argued that the invocation was premature and did not align with the terms set forth in the contract.

The key legal issue in the case was whether SBI had followed the correct process for invoking the

corporate guarantee and whether IPCL could be held liable for the outstanding loan amount. The court carefully examined the terms and conditions of the guaranteed agreement, including the rights and responsibilities of both the creditor (SBI) and the guarantor (IPCL). The focus was on whether SBI's actions in demanding payment under the guarantee were legally justified.

Decision

After reviewing the facts and arguments presented by both parties, the court ruled in favor of SBI. The court held that the corporate guarantee was valid and binding, and IPCL was obligated to fulfill its guaranteed obligations. It was found that SBI had not violated any procedural requirements in invoking the guarantee and had acted within its legal rights. The court rejected IPCL's contention that the guarantee was unenforceable or that the demand for payment was premature.

The decision underscored the importance of adhering to the terms of financial guarantees and clarified that corporate guarantors are liable to meet their obligations if the borrower defaults. This ruling reinforced the enforceability of corporate guarantees in loan transactions, emphasizing that guarantors must honor their commitments unless clear evidence of procedural violations or misinterpretations of the contract can be established. As a result, IPCL was ordered to pay the outstanding loan amount owed by the borrower to SBI.

Link of the Order

<https://ibbi.gov.in/uploads/order/777bd0263f4210787524f0db5422b863.pdf>



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