NATIONAL COMPANY LAW APPELLATE TRIBUNAL
PRINCIPAL BENCH: NEW DELHI

Company Appeal (AT) (Insolvency) No. 597 of 2025

(Arising out of the Order dated 13.02.2025 passed by the 'Adjudicating Authority' (National Company Law Tribunal, New Delhi Bench) in IA No. 3206/2023 in IB No.2688/ND/2019)

IN THE MATTER OF:

The South Indian Bank Ltd.,
Through its Chief Manager/authorized representative, Mr. Swaroop Kumar Tripathy,
S/o Shri Suresh Chandra Tripathy,
Regional Office at: 3rd Floor, Plot No. 21 & 21/1,
Near Karol Bagh Metro Station, Pusa Road,
Karol Bagh, New Delhi-110005 **...Appellant**

Versus

Brijesh Singh Bhadauriya
Resolution Professional for RCI Industries and Technologies Limited
C-II/ 08, Mangal Apartment,
Vasundhara Enclave, Near Dharamshila Naryayan Superspeciality Hospital, East,
National Capital Territory of Delhi-110096 **...Respondent**

Present:

For Appellant	:	Ms. Samiksha Godiyal, Mr. Arsh Khan, Mr. Ritwik Narayanan and Mr. Tenzing Bhatia, Advocates
For Respondent	:	Ms. Swapnil Gupta, Advocate for SRA.

J U D G M E N T
(Hybrid Mode)

[Per: Arun Baroka, Member (Technical)]

The present Appeal is preferred by the Appellant, which is a scheduled commercial bank, and which had provided various credit facilities to RCI Industries and Technologies Limited (the "Corporate Debtor"), against the order dated 13.02.2025 passed by the Hon'ble National Company Law

Tribunal, New Delhi, Bench III in IA No. 3206/2023 in IB No.2688/ND/2019 ("Impugned Order") under Section 61(1) of the Insolvency and Bankruptcy Code. By the Impugned Order, the Ld. Adjudicating Authority has dismissed the application for direction filed by the Appellant to be treated as a Financial Creditor in relation to a credit facility extended to the Corporate Debtor under Trade Receivables Discounting System ("TReDS").

Brief relevant facts are as follows:

2. The Reserve Bank of India issued guidelines on 02.07.2018 to set up the Trade Receivables Discounting System ("TReDS"). TReDS lets MSMEs convert trade receivables into cash. It works through an electronic bidding platform. Many financiers compete on this platform to discount invoices. The Appellant/Bank signed a Master Financier Agreement with Mynd Solutions Pvt. Ltd on 07.04.2018. Mynd Solutions hosts the TReDS platform -which is called 'M1 Exchange'. The Corporate Debtor registered on this platform as a buyer. It signed a Master Buyer's Agreement with Mynd Solutions on 21.12.2018.

3. The mechanism of reverse factoring worked as described herein after. The Corporate Debtor's suppliers sold goods in the ordinary course of business. They uploaded their invoices on the M1 platform. The Corporate Debtor, as buyer, confirmed these invoices. Financiers, including the Appellant/Bank, then bid to discount the invoices. Once a bid was accepted, the Bank paid the supplier immediately even though a discounted value. At the same time, the supplier signed a Deed of Assignment. This was done digitally on the M1 platform. Clause 4.3.3 of the Master Buyer's Agreement

governs this step. By this deed, the trade receivable was assigned to the Bank. The Bank then had the right to recover the full invoice value. It could recover this from the Corporate Debtor on the due date. Between August 2019 and February 2020, the Bank made such payments. It also took assignments of the receivables. Between 2019 and 2020, the Bank began getting bounce notifications. These were NACH auto-debit bounces due to non-payment by the Corporate Debtor.

4. The Corporate Debtor's account became a Non-Performing Asset on 15.11.2019. Standard Chartered Bank, Singapore, then filed a Section 9 application. This application was admitted on 25.11.2022. CIRP began against the Corporate Debtor. Respondent No. 1 was appointed IRP, and later Resolution Professional. The Bank filed its claim in Form C on 13.12.2022 and claimed as a Financial Creditor. The total claim was ₹38.54 crore. This had two parts. ₹20,62,76,197 was towards a cash-credit facility i.e. CCOL exposure. ₹17,92,08,473 was towards the TReDS exposure. By a communication dated 18.12.2022, the Resolution Professional accepted the CCOL part as financial debt. But he held the TReDS part to be operational debt and directed the Bank to re-file that claim in Form B. The Bank objected. It raised this objection at the first CoC meeting on 29.12.2022 and also wrote a letter dated 20.12.2022. However, the Resolution Professional did not accept the objection.

5. The Bank filed I.A. No. 3206 of 2023 on 05.06.2023 under Section 60(5) of the Code and sought two things. First, to set aside the Resolution

Professional's communication. Second, a direction to treat the TReDS claim as financial debt. Pleadings were completed by 16.08.2024. Meanwhile, the CoC approved the SRA's resolution plan on 05.06.2024. An application seeking approval of this plan was filed before the Adjudicating Authority on 07.09.2024. By the Impugned Order dated 13.02.2025, the Adjudicating Authority dismissed I.A. No. 3206 of 2023. It held that the issue was covered by its own earlier order, dated 10.11.2023, which was passed in I.A. No. 1990 of 2023, in the matter of Mudraksh Investfin Pvt. Ltd. v. Brijesh Singh Bhadauriya. It concerned an identical TReDS claim and related to the very same Corporate Debtor. This Appellate Tribunal had affirmed that order on 05.01.2024 in Company Appeal (AT)(Ins) No. 1671 of 2023.

6. While the appeal was pending, the Adjudicating Authority, on 09.10.2025, approved the SRA's resolution plan. It is not disputed that the plan has since been fully implemented. Payments have been made to creditors under the plan. The Monitoring Committee has been dissolved.

7. It is also on record that the Bank filed a fresh claim in Form B on 12/13.03.2025 as an Operational Creditor. This happened after I.A. No. 3206 of 2023 was dismissed. It also happened after the CoC had approved the plan.

<u>Submissions of the Appellant/South Indian Bank</u>

8. The present appeal is preferred against the order dated 13.02.2025 passed by the Ld. National Company Law Tribunal, New Delhi, Court-III, by which, the Appellant’s application for directions under Section 60(5) of the Insolvency and Bankruptcy Code, 2016 (“IBC”) was dismissed. Through the

said application, the Appellant sought reclassification of the credit facilities extended through the Trade Receivables and Discounting System ("TReDS") as a "financial debt". The facility was extended on a reverse factoring basis, i.e., a buyer-led financing arrangement where a bank/financial institution finances the supplier's invoice at a discount at the buyer's request. In such transactions, the bank/financial institution is the financier and the buyer is the borrower. The Appellant's case is that this lending transaction has been wrongly classified as an "operational debt" by the IRP/Resolution Professional, a view upheld by the Ld. NCLT.

9. The Appellant had extended various credit facilities to RCI Industries and Technologies Limited, ("Corporate Debtor") including-

i. CCOL exposure to the tune of ₹20,62,76,197.

ii. Trade Receivables and Discounting System ("TReDS") facility on a 'reverse factoring basis', to the tune of ₹17,92,08,473 through platform hosted by Mynd Solutions Pvt. Ltd.

10. As the Corporate Debtor defaulted on payments to their creditors, their account was declared as a Non-Performing Asset ("*NPA*") on 15.11.2019. A Section 9 application under the IBC, filed by one of its Operational Creditors was admitted by the Ld. NCLT on 25.11.2022. Thereafter, the Appellant filed its claim for ₹38.54 Crores before the Respondent No. 1 in 'Form C' as a financial creditor on 13.12.2022. The Respondent by his email dated 18.12.2022 while accepting the claim of the Appellant of CCOL as being a financial debt, concluded that the debt with respect to TReDS facility was an operational debt and directed the Appellant to file the claim in that regard

under ‘Form B’. The Appellant challenged the same before the Ld. NCLT and sought a direction for re-classification of its credit facility extended under TReDS as a financial debt. The Ld. NCLT vide the Impugned Order dated 13.02.2025 rejected the application by the Appellant, on an erroneous basis that the same was covered by the decision of this Appellate Tribunal in the case of [1]**M/s. Mudraksh Investfin Private Limited vs. Mr. Brijesh Singh Bhadauriya [Company Appeal (AT) (Ins.) No. 1671/ 2023].**

11. The Ld. NCLT failed to consider any of the grounds raised in the Appellant’s application and rejected the application on an incorrect presumption that the Appellant’s counsel had conceded to being covered by [1]**Mudraksh.**

12. Aggrieved by the same, the Appellant filed the underlying appeal before this Appellate Tribunal on 28.03.2025, which was admitted on 08.05.2025. However, while the matter was pending before this Appellate Tribunal, on 09.10.2025, the Ld. NCLT approved the resolution plan submitted by the Respondent No. 2/ SRA without considering the status of credit extended by the Appellant under TReDS- either as a financial or operation debt- leaving it completely out of consideration.

13. The Appellant is a scheduled commercial bank and its activities are regulated by sectoral regulators such as the Reserve Bank of India (“RBI”). As

[1] **M/s. Mudraksh Investfin** Private Limited vs. Mr. Brijesh Singh Bhadauriya [Company Appeal (AT) (Ins.) No. 1671/ 2023]

a scheduled commercial bank, the service provided by the Appellant is limited to providing lending facilities to various borrowers. Accordingly, the facility extended by the Appellant to the Corporate Debtor was in the nature of a loan i.e. a financial debt.

14. The Guidelines for Trade Receivables Discounting System (TReDS) issued by the RBI dated 02.07.2018, ("RBI Guidelines") provide clarity on the nature of transactions undertaken on the TReDS, salient features of the same are summarized below:

a. Clause 3 of the notification states that the scheme has been set up for the benefit of MSMEs.

b. Clause 5 of the notification states that transactions on the TReDS platform shall be on a "without recourse" basis to MSMEs (i.e. suppliers).

c. Clause 6 (a) of the notification distinguishes factoring transactions (i.e. at the behest of the supplier) from reverse factoring transactions (i.e. at the behest of the buyer). Crucially, in the present case the dispute arises from a reverse factoring transaction.

d. Clause 9 states that the final payment is to be made by the buyer to the financier on the due date.

e. Annexure to the RBI Guidelines provides an illustrative outline of process flow under TReDS. Clause p) states that the financier will be entitled to receive funds from the buyer, while Clause q) states that upon non-payment by the buyer on the due date, the financier will be enabled to proceed against the buyer. Clause q) makes it clear that the non-recourse of the financier is limited to the MSMEs (i.e. supplier) and not the buyer.

15. The Appellant/South Indian bank contends that section 5(8) of the IBC squarely applies to the Appellant's transaction. Transactions undertaken on the TReDS platform were governed by the agreements entered between the Appellant, the Corporate Debtor and Mynd Platform including the Master Financier's Agreement ("MFA") and Master Buyer's Agreement ("MBA"). The nature of transaction under the MFA and MBA which clearly showcase that the nature of the transaction is a financial debt/ loan:

Clause	Provision
1.35 of the MFA	The Definition of Transaction includes all actions between the Supplier, Buyer and the Financiers
5.1.2 of the MFA	The Appellant has right to demand payment on the trade receivables.
5.1.3 of the MFA	The Appellant has right to charge penal interest.
5.1.5.1 of the MFA	Discounting of factoring units only without recourse to the supplier.
4.1.1 of the MBA	The Factoring Unit is created by the Buyer in case of reverse factoring
4.3.2 of the MBA	Buyer shall be unconditionally liable to pay on the due date any underlying amounts to the Financier.
4.3.7.2 of the MBA	Discounting of factoring units only without recourse to the supplier.
7.3 of the MBA	The Corporate Debtor is obligated to pay the due amounts on the stipulated day with expenses and interest.
7.5 of the MBA	The Corporate Debtor has to pay interest amount computed by the Appellant on any delay or dishonour of payment under a Factoring Unit in accordance with the Penal Interest Rate
7.11 of the MBA	The Corporate Debtor has also authorized the financier to provide notification to the Central Registry

	of Securitization Asset Reconstruction and Security Interest in respect of any Transaction which has been discounted by the Appellant.

16. The above clauses governing the relationship between the Appellant and the Corporate Debtor, demonstrate the following:

a. Time value of money is built in: The MBA obligates the Corporate Debtor to pay due amounts with expenses and interest, and separately provides interest/penal interest on delay/dishonour.

b. The transaction is structurally buyer-led finance: Reverse factoring is initiated by/anchored to the buyer, and repayment is from the buyer's account on the due date.

c. Commercially, the Financier disburses on behalf of the Corporate Debtor to discharge its supplier obligations, hence the disbursal is for the benefit of the Corporate Debtor.

d. It is "non-recourse" only with respect to the supplier (MSME) and not the buyer (Corporate Debtor)

17. In view of the above, it is clear that the nature of the transaction between the Appellant and the Corporate Debtor squarely falls within the definition of 'financial debt' as provided under Section 5(8)(e) of the IBC.

18. In any case, the transaction would be covered under Section 5(8)(f) which covers any transaction having the commercial effect of borrowing.

19. Appellant places its reliance on the judgment of the Hon'ble Supreme Court in [2]**Global Credit Capital Limited vs Sach Marketing [2024 SCC**

[2] **Global Credit Capital** Limited vs Sach Marketing [2024 SCC Online SC 649)]

Online SC 649)] wherein it was held that when determining the nature of debt, it is necessary to ascertain what is the real nature of the transaction reflected in the writing which we have discussed in the later sections hereinafter.

20. The Appellant claims that the decision in the case of [1]**Mudraksh** doesn't apply to the present case. The decision of this Ld. Tribunal in [1]**Mudraksh** is contained within its own facts and delivered on the following primary grounds:

a. There was no disbursement in [1]**Mudraksh**.

b. The 'transaction' in question arose from sale and purchase of goods.

21. The relevant paragraph has been extracted below for ease of reference:

> "21…The transaction emanates from sale and purchase of goods in the present case. No disbursement made to the Corporate Debtor, hence, the transactions cannot be held to be a financial debt…"

22. With respect to the first ground that no disbursement was provided to the Corporate Debtor, this Appellate Tribunal failed to consider the following judgements which stipulate that 'disbursal' under S.5(8) is not limited to disbursals made to the Corporate Debtor but would include disbursals being made on its behalf or at its instruction:

a. [3]**Rajeev Kumar Jain v. Uno Minda Limited [2024 SCC OnLine NCLAT 28]** holds that any disbursal made on behalf of the Corporate Debtor or at its instructions would be tantamount to a disbursal made to the Corporate Debtor as the Corporate Debtor is the ultimate beneficiary of such disbursal. [**36**].

[3] **Rajeev Kumar Jain** v. Uno Minda Limited [2024 SCC OnLine NCLAT 28]

b. [4]**Somesh A. Naik vs Isinox Limited [2023 SCC Online NCLT 91]** also holds that payments made to suppliers on behalf of a Corporate Debtor would be deemed to be a financial debt as it is covered under S.5(8)(e) of the IBC which specifically deals with "Receivables Sold or Discounted". [**4.6.2**, **4.6.4**].

23. Further, the flaw in the reasoning in [1]**Mudraksh** is that the sale and purchase transaction between the Corporate Debtor and the supplier was considered, and this Appellate Tribunal based its findings on the purchase transaction being the primary transaction between the parties. This Appellate Tribunal did not consider the nature of the independent financing/lending transaction between the Corporate Debtor and the financier. The financier, like the Appellant in the present case, has an independent right under the TReDS agreements to demand payment from the buyer and an independent obligation to pay the supplier on behalf of the buyer. This transaction is purely financial between the Appellant and the Corporate Debtor wherein funds have been disbursed by the Appellant at the behest of the Corporate Debtor to enable it to pay its suppliers. It has no connection with the business operations of the Corporate Debtor or the underlying sale and purchase agreement.

24. The nature of the transaction between the Corporate Debtor and the Appellant continues to remain a lending transaction and does not change merely because the funds disbursed by the Appellant are utilized to pay suppliers for purchase of goods. The judgment in [1]**Mudraksh** fails to consider

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[4] **Somesh A. Naik** vs Isinox Limited [2023 SCC Online NCLT 91]

this aspect and the nature of the transaction that exists between the Corporate Debtor and a Financier.

25. In any case, the judgement in [1]**Mudraksh** did not deal with S.5(8)(e) of the IBC (the judgement in [1]**Mudraksh** is restricted to S.5(8)(f)) which clearly includes trade receivables within the definition of 'financial debt' as long as the such trade receivables are with recourse. Since recourse under the MFA and MBA exists against the Corporate Debtor (buyer), the lending facilities extended by the Appellant are squarely covered within the definition of 'financial debt' under S.5(8)(e) of the IBC.

26. The Ld. NCLT did not consider the fact that the decision in [1]**Mudraksh** was given in relation to non-banking financial institution, while the Appellant is a scheduled commercial bank and is governed by the rules and directions issued by RBI. These two entities cannot be equated since they have very different working and different applicable sectoral regulators.

27. As per the RBI guidelines, non-payment to the banker would be tantamount to a default and be reported as such as per regulatory procedures and will enable the banker to proceed against the defaulter. Therefore, there are specific guidelines which are applicable to the banks/ financial institutions in such circumstances. The Appellant also had to book exposure on the same. Therefore, the discounting and factoring services were provided by the Appellant only as a financial-services with interest and penal charges applicable and there can be no direct application of [1]**Mudraksh** herein.

28. In any event, the decision in [1]**Mudraksh** might also require reconsideration given that there appears to be a difference in opinion between different benches in [1]**Mudraksh** and [3]**Rajeev Kumar Jain** of this Appellate Tribunal in relation to how a transaction where credit is extended to cover the dues to the suppliers is to be treated.

29. While the proceedings have been pending before this Appellate Tribunal, the Committee of Creditors had approved the resolution plan submitted by Respondent No. 2 and the same was also later confirmed by the Ld. NCLT vide its order dated 09.10.2025. Therefore, the resolution plan doesn't consider the claim by the Appellant made under the TReDS under either of the heads- financial or operational. This is contrary to the law laid down in [5]**Greater Noida Industrial Development Authority vs Prabhjit Singh Soni [2024 SCC OnLine SC 122]** wherein it has been held that where a claim is submitted by a creditor, which is otherwise verifiable, even if in the wrong class, the same must be accorded due consideration [¶30]. The same hasn't been done herein.

30. Aside from the above, the decision by the Respondent and confirmed by the Ld. NCLT has heavily prejudiced the interests of all financial institutions acting upon the guidelines issued by RBI for setting up and operating TReDS for facilitating the financing of trade receivables of MSMEs from corporates through multiple financiers. The same would move them lower in the

[5] **Greater Noida Industrial Development Authority vs Prabhjit Singh Soni** [2024 SCC OnLine SC 122]

liquidation waterfall and negatively impact not just the financiers but also MSMEs for whose benefit the scheme was introduced.

31. Therefore, requested to allow the underlying appeal and set aside the Impugned Order passed by the Ld. NCLT.

Submissions of Successful Resolution Applicant (SRA) - R2

32. SRA claims that it is a Settled law that discounting of invoices is not financial debt**.** The transaction in the present case is a transaction of assignment of trade receivables and case of similar facts has already been decided in the case of [1]**Mudraksh** by this Hon'ble Tribunal. The Appellant and Mynd Solutions Pvt. Ltd. executed a "Master Financiers Agreement dated 09.01.2018", wherein, 'Transaction' and 'Bidding Process' at Clause 1.35 and Clause 5.1.2 of respectively are defined. The clauses are reproduced hereinbelow for ready understanding of this Hon'ble Tribunal: -

> "**Clause 1.35 - Transaction**" shall mean all actions carried out between the Supplier. the Buyer, the Buyer's Bank and the Financiers on the M1 Website in respect of a Factoring Unit, including but not limited to bidding for the Factoring Unit, discounting of the Factoring Unit. transfer of the Bid amount, assignment of the Trade Receivables of the Factoring Unit and payment of the amount underlying the Factoring Unit on the Due Date and shall include all the processes for the rediscounting of an already discounted Factoring Unit;
>
> **Clause 5.1.2 – Bidding Process** – A bid may be placed by the Company directly acting on behalf of the Financier (general authorization) in the event the Financier has adopted/accepted the Auto-Bid feature described more particularly in the Procedural Guidelines. A bid placed through the

Auto Bid feature is deemed to be a valid Bid placed by the Financier and will be open for acceptance by the Suppliers/Buyer (as the case may be)**.”**

33. Even in facts of the case in the judgment of [1]**Mudraksh,** the definition of “**Transaction**” is the same.

> “**9. ‘Transaction’ is defined in Clause 1.35, which is as follows:**
>
> **1.35. “Transaction**” shall mean all actions carried out between the Supplier, the Buyer, the Buyer’s Bank and the Financers on the M1 Website in respect of a Factoring Unit, including but not limited to bidding for the factoring Unit, discounting of the Factoring Unit, transfer of the Bid amount, assignment of the Trade Receivables of the Factoring Unit and payment of the amount underlying the Factoring Unit on the Due Date and shall also include all the processes for the rediscounting of an already discounted Factoring Unit;”

34. On perusal of the above stated definitions, it can be clearly seen that the definition of the “Transaction” in the present case and in the [1]**Mudraksh** judgment is exactly the same. This Hon’ble Tribunal gave the following finding in the case of [1]**Mudraksh**, which is reproduced hereinbelow for ready understanding: -

> “21. It was held that Section 5 (8) does not expressly exclude an interest free loan. The above judgment of the Hon’ble Supreme Court was on entirely different facts, where Lender had advanced a loan without any interest. The present is not a case of financing any loan, rather present is a case of transaction of M1 Platform, on which Platform, both Seller, Buyer and Financers are registered and transaction takes place for sale and purchase of goods and discounting of invoices, payments and recoveries of payment by Financers. The transaction emanates from sale and purchase of goods in the present case. No disbursement was made to the Corporate Debtor, hence,

the transactions cannot be held to be a financial debt. We do not find any error in the order of the Adjudicating Authority agreeing with the view of the RP that claim of the Appellant is only an 'operational debt'."

35. The Successful Resolution Applicant places its reliance on the judgment of this Appellate Tribunal in the matter of [6]**Minions Ventures Pvt. Ltd. Vs. TDT Copper Limited, CA (AT) (INS.) No. 572 of 2022**, which has been dealt with by us herein after in the analysis and evaluation section and contends that the Financiers/Appellants entered into shoes of the Seller and had become Operational Creditors in terms of Section 5(20) as well as 21(5) and Section 5(7) and 5(8)(e) of the Code is not at all applicable.

36. SRA also brings to our notice that the Resolution Plan approved by the Ld. Adjudicating Authority vide order dated 09.10.2025 is implemented and monitoring committee stands dissolved. As such, the Respondent No. 2 herein has made the complete payment to the Creditors. It is further submitted that the Respondent No. 1 has also filed an application seeking closure of Corporate Insolvency Resolution Process of M/s RCI Industries Limited which ceases to exist.

37. Therefore, it contends to dismiss the captioned appeal.

Submissions of Resolution Professional/R-1

38. RP claims that the debt is operational in nature and does not qualify as a financial debt under the code. The claim of the Appellant arises from discounting of trade receivables which were originally payable by the

[6] **Minions Ventures** Pvt. Ltd. Vs. TDT Copper Limited, CA (AT) (INS.) No. 572 of 2022

Corporate Debtor to its suppliers for goods supplied in the ordinary course of business. Under the TREDS platform operated under the brand name "M1," the suppliers uploaded their invoices for goods supplied to the Corporate Debtor. Upon confirmation of these invoices by the Corporate Debtor, the Appellant, acting as a factor, bid for such invoices and, once accepted, made immediate payment to the suppliers. In this process, the Appellant merely stepped into the shoes of the suppliers for the limited purpose of collecting the amounts due from the Corporate Debtor. The Corporate Debtor's liability remained the same discharge of its trade payables for goods purchased and the Appellant's role was confined to financing the suppliers by paying them upfront. Importantly, no disbursement was ever made to the Corporate Debtor itself, and the Appellant's claim is only in respect of dues originally owed by the Corporate Debtor to its suppliers. Thus, debt is operational in nature and does not qualify as a financial debt under the code.

39. The debts claimed arise entirely from supply of goods and are therefore operational in nature as defined under Section 5(21) of the Code. Section 5(20) further clarifies that an assignee of such debt also qualifies only as an "*Operational Creditor*." The mere assignment of these dues to the Appellant does not alter their character from operational to financial. On the other hand, a “Financial Debt” under Section 5(8) of the Code necessarily requires disbursement to the Corporate Debtor against consideration for the time value of money, which is absent in this case. The Appellant only financed the suppliers and not the Corporate Debtor. Accordingly, the Ld. Adjudicating Authority has rightly held that the Appellant cannot be treated as a Financial

Creditor and that the debt in question is operational in nature, consistent with the statutory scheme of the Code.

40. Furthermore, the resolution professional claims that the assignment of operational debt does not alter its nature. The Appellant's claim arises from trade receivables payable by the Corporate Debtor to its suppliers for goods supplied in the ordinary course of business. These liabilities are clearly operational in nature under Section 5(21) of the Code. The Master Buyer Agreement dated 21.12.2018 merely facilitated this mechanism by recording that once the receivables were discounted, the Corporate Debtor was to repay the financer i.e., the Appellant on the due date. Clause 7.3 of the Agreement expressly provides that the Buyer shall pay the monies underlying a discounted Factoring Unit to the relevant Financer along with any incidental charges, thereby acknowledging the Corporate Debtor's obligation to discharge the same. At no point was any amount disbursed to the Corporate Debtor, nor was there any element of consideration for the time value of money, which is a core requirement under Section 5(8) to constitute financial debt.

41. It is further pertinent to mention that Clause 4.3.3 of the Master Buyer Agreement clearly stipulates the manner in which assignment takes place upon acceptance of a bid. The clause provides that once a bid is accepted in accordance with the Procedural Guidelines, <u>the Supplier shall execute a Deed of Assignment</u> generated on the M1 Website by affixing its digital signature. Upon such execution, all underlying <u>Trade Receivables stand absolutely</u>

assigned, transferred, and sold to the Financier, who becomes the full legal and beneficial owner thereof, with exclusive rights to recover and institute proceedings in its own name. The clause further clarifies that such rights are conferred on the Financier in its own capacity as assignee and purchaser.

42. The character of the liability under the Code is determined by the substance of the underlying transaction and not by the identity of the party enforcing the claim. Here, the transaction remains squarely within the realm of an operational liability despite its assignment. The assignment only transferred the receivables from the suppliers to the Appellant, who thereby acquired the right to recover the same as an Operational Creditor. It is a settled position in law that the assignment of debt does not alter its nature. Consequently, the Adjudicating Authority has rightly held that the Appellant cannot claim the status of a Financial Creditor, as assignment of operational debt cannot metamorphose it into financial debt.

43. The controversy raised herein stands conclusively settled by the judgment of this Hon'ble Appellate Tribunal in [1]**Mudraksh.** In that case, an NBFC engaged in factoring through the TREDS platform had raised an identical plea that amounts due under discounted invoices constituted "Financial Debt" by virtue of the assignment of receivables. This Hon'ble Appellate Tribunal, after examining the substance of the transaction, categorically held that no disbursement was ever made to the Corporate Debtor and that the underlying liability emanated from supply of goods. It was accordingly held that such claims constitute "Operational Debt” only and

assignment does not alter their character. The facts of the present case are on all fours with the [1]**Mudraksh** matter: (i) the claim arises from invoice discounting on the TREDS platform, (ii) no loan or disbursement was made to the Corporate Debtor, (iii) the liability is traceable to trade payables owed to suppliers, and (iv) the claim was filed under Form C asserting Financial Creditor status, which was rightly rejected. The Ld. Adjudicating Authority has therefore correctly applied the ratio of [1]**Mudraksh** and rejected the Appellant's claim as financial debt. The Impugned Order is thus in complete conformity with binding precedent and warrants no interference.

44. The regulatory status of the Appellant as Scheduled Commercial Bank is irrelevant for determining the nature of the debt, under the Code the character of debt depends on the substance of the underlying transaction, not the identity of the claimant. It is again reiterated that Corporate Debtor's Liability arose from the trade payables in the ordinary course of business, and the Appellant merely acquired these receivables through TREDS; such assignment does not change the debt's operational nature. Consequently, the Appellant cannot claim financial creditor merely due to RBI regulation, and the Impugned Order correctly rejected the attempt to reclassify an operational Debt as a financial debt.

45. No disbursement was ever made to the corporate debtor which is core requirement of financial debt not satisfied. A financial debt under Section 5(8) of the Code requires disbursement of funds to the Corporate Debtor for consideration of time value of money; without such disbursement, no lender

borrower relationship can arise. In the present case, the Appellant made no disbursement to the Corporate Debtor, as payments were made directly to suppliers under the TREDS mechanism to settle trade dues. By acquiring receivables through assignment, the Appellant merely stepped into the shoes of the suppliers, and such assignment does not alter the operational nature of the debt under Sections 5 (20) and 5 (21) of the Code. Since, the essential requirement of disbursement to the Corporate Debtor is absent, the claim cannot be classified as financial debt, and the Impugned Order correctly rejected the Appellant's claim, rendering the Appeal without merit.

46. Resolution Professional does not have jurisdiction to reconsider or reverse his earlier decision suo motu when the matter was sub judice. The Appellant later filed its claim in Form B on 13.03.2025, dated 12.03.2025, as an Operational Creditor, after the Resolution Plan had already been approved by the members of the CoC on 05.06.2024 and filed before the Hon'ble NCLT for its approval 07.09.2024. At that stage, the Resolution Professional had no authority or jurisdiction to revisit, entertain, or re-classify the said claim, particularly when the issue was already pending adjudication before the Ld. Adjudicating Authority. Once the matter is sub judice, no authority can alter its position on the same issue, as doing so would violate judicial discipline and the doctrine of sub judice. The Resolution Professional's role under the Code is administrative and non-adjudicatory, and he cannot override or interfere with matters pending before the Adjudicating Authority under Section 60(5).

47. In view of the above submissions, it is prayed to dismiss the captioned Appeal being devoid of any merit.

Analysis and evaluation

48. We have heard the counsels of both sides and also perused the material placed on record. The principal issue that falls for determination in this appeal is whether the credit facility extended by the Appellant/South Indian Bank to the Corporate Debtor/RCI Industries on the TReDS platform, on a reverse-factoring basis — under which the Appellant discounted and paid the Corporate Debtor's suppliers' invoices and took assignment of the underlying trade receivables — constitutes ‘financial debt' within the meaning of Section 5(8) of the Code, or is ‘operational debt' within the meaning of Section 5(21) of the Code.

49. Ancillary to the above issue, the following points also arise:

- Whether [1]**Mudraksh**(supra), rendered by this Tribunal in relation to the very same Corporate Debtor and the very same TReDS mechanism, is squarely applicable, and whether the distinctions sought to be drawn by the Appellant — the applicability of Section 5(8)(e) as opposed to only Section 5(8)(f), the “disbursal on behalf of” argument, and the Appellant's status as a scheduled commercial bank — are sufficient to distinguish it;

- Whether the Adjudicating Authority erred in dismissing I.A. No. 3206 of 2023 on the footing that the Appellant had conceded to being covered by [1]**Mudraksh**, and, if so, whether that vitiates the Impugned Order;

- Whether the principle in [5]**Greater Noida v. Prabhjit Singh Soni** — that a verifiable claim, even if in the wrong class, must be considered — avails the Appellant in the facts of this case; and

- Whether, the resolution plan having since been approved and fully implemented, any relief can now be granted to the Appellant, or whether the appeal has been rendered infructuous.

<u>Statutory scheme per IBC - how it applies to TReDS</u>

50. Section 5(8) of the Code extracted as below.

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Section 5. Definitions.

In this Part, unless the context otherwise requires, --

...

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

(a) money borrowed against the payment of interest;

(b) any amount raised by acceptance under any acceptance credit facility or its de-materialised equivalent;

(c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;

(d) the amount of any liability in respect of any lease or hire purchase contract which is deemed as a finance or capital lease under the Indian Accounting Standards or such other accounting standards as may be prescribed;

(e) receivables sold or discounted other than any receivables sold on non-recourse basis;

(f) any amount raised under any other transaction, including any forward sale or purchase agreement, having the commercial effect of a borrowing;

[*Explanation:* For the purposes of this sub-clause, --

(i) any amount raised from an allottee under a real estate project shall be deemed to be an amount having the commercial effect of a borrowing; and

(ii) the expressions, allottee and real estate project shall have the meanings respectively assigned to them in clauses (d) and (zn) of section 2 of the Real Estate (Regulation and Development) Act, 2016 (16 of 2016);]

(g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price and for calculating the value of any derivative transaction, only the market value of such transaction shall be taken into account;

(h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, documentary letter of credit or any other instrument issued by a bank or financial institution;

(i) the amount of any liability in respect of any of the guarantee or indemnity for any of the items referred to in sub-clauses (a) to (h) of this clause;

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51. We observe that Section 5(8) of the Code defines "financial debt" as a debt disbursed against the consideration for the time value of money, and includes, by way of illustration, specific categories such as money borrowed against interest (clause (a)), amounts raised under any transaction having the

commercial effect of a borrowing (clause (f)), and the amount of any liability in respect of any of the guarantees or indemnities for the foregoing and others as noted above.

52. Furthermore, Section 5(21) of the Code defines “operational debt” as a claim in respect of the provision of goods or services, including employment. Related is the assignment of operational debt, which is defined in Section 5(20) that provides that a person to whom an operational debt is legally assigned or transferred is an “Operational Creditor.”

53. We note that the common thread that runs through every limb of Section 5(8), including its illustrative sub-clauses, is disbursal against the consideration for the time value of money; where that touchstone is absent, a transaction does not become financial debt merely because it can be dressed in the language of one of the illustrative sub-clauses.

54. On the facts, which are not seriously in dispute, the mechanics of the transaction are noted herein in this paragraph. Corporate Debtor's suppliers, having supplied goods in the ordinary course of business, uploaded their invoices onto the M1 platform. Upon confirmation by the Corporate Debtor as a buyer, the Appellant bid for and discounted the invoices, paying the suppliers immediately. The suppliers, in turn, executed Deeds of Assignment transferring the trade receivables to the Appellant. At no stage did any sum pass from the Appellant to the Corporate Debtor. What the Appellant acquired, by assignment, was the very same right the suppliers already

possessed — the right to be paid the price of goods sold and delivered. The obligation of the Corporate Debtor to pay the Appellant on the due date is not a fresh or independent obligation created by a loan; it is the very same trade payable that always existed, now owed to an assignee instead of to the original supplier.

55. In the background of the above noted mechanics of the working of the TReDS system, we are unable to accept the Appellant's submission that this arrangement is, in substance, buyer-led lending independent of the underlying sale of goods for the reasons noted herein after. The Bank points to the "time value of money" element due to the discount, and to interest for delay. But we find this is ordinary compensation, a compensation a financier earns for paying a trade receivable early. It is not a consideration for a loan. It is not money given to let the Corporate Debtor raise funds it did not otherwise have. This is the very distinction Sections 5(20) and 5(21) draw. An assignee of an operational debt remains an Operational Creditor. The fact that the assignee agreed to pay early, at a discount, does not change this. If the law were otherwise, every factoring arrangement would convert operational debt into financial debt. That cannot be right. Section 5(20) prevents such situations.

56. An important judgment on factoring services is [1]**Mudraksh,** which has been relied upon by the adjudicating authority and is also relied upon by the respondents. In [1]**Mudraksh** this appellate tribunal held as follows:

> “21. It was held that Section 5 (8) does not expressly exclude an interest free loan. The above judgment of the Hon’ble Supreme Court was on entirely different facts, where Lender had advanced a loan without any interest. The present is not a case of financing any loan, rather present is a case of transaction of M1 Platform, on which Platform, both Seller, Buyer and Financers are registered and transaction takes place for sale and purchase of goods and discounting of invoices, payments and recoveries of payment by Financers. The transaction emanates from sale and purchase of goods in the present case. No disbursement was made to the Corporate Debtor, hence, the transactions cannot be held to be a financial debt. We do not find any error in the order of the Adjudicating Authority agreeing with the view of the RP that claim of the Appellant is only an ‘operational debt’.”

57. In the above noted case, we observe that an NBFC engaged in factoring through the TREDS platform had raised an identical plea that amounts due under discounted invoices constituted "Financial Debt" by virtue of the assignment of receivables. After examining the substance of the transaction, it was held no disbursement was ever made to the Corporate Debtor and that the underlying liability emanated from supply of goods. It was accordingly held that such claims constitute "Operational Debt” only and assignment does not alter their character. The facts of the present case are similar as here also (i) the claim arises from invoice discounting on the TREDS platform, (ii) no loan or disbursement was made to the Corporate Debtor, (iii) the liability is traceable to trade payables owed to suppliers, and (iv) the claim was filed under Form C asserting Financial Creditor status, which was rightly rejected.

58. We thus find that the Adjudicating Authority has correctly applied the ratio of [1]**Mudraksh** and rejected the Appellant's claim as financial debt. The Impugned Order is thus in complete conformity with binding precedent and warrants no interference on this argument.

59. Further, we observe that this Appellate Tribunal in the matter of [6]"**Minions Ventures(supra)**, dealt with similar set of facts. The issue before this Tribunal in "**Minions**" case was *"whether the Appellants in the second appeal (Financiers) are the Financial Creditors as against the Corporate Debtor or have stepped in to shoes of the Seller as an Operational Creditors and as such application filed by the Appellants in the second appeal under Section 7 of the Code has rightly been held to be not maintainable and were rightly relegated to avail their remedy of filing the application under Section 9 of the Code.?"* This Appellate Tribunal answered in favour of Resolution Professional therein and held as follows: -

> "13.......In this transaction, the money was never disbursed much less for the time value as a financial debt to the Corporate Debtor and by virtue of discounting the invoice of the Seller of an amount of Rs.3,42,03,903/- for amount of Rs.1,75,23,133/- the Financiers/Appellants entered into shoes of the Seller and had become Operational Creditors in terms of Section 5(20) as well as 21(5) and Section 5(7) and 5(8)(e) of the Code is not at all applicable."

60. Thus, we find that the finding in [6]**Minions** — that TReDS-type financiers' step into the shoes of sellers and become Operational Creditors,

such that recourse under Section 7 is unavailable to them — independently reinforces the same conclusion.

61. We do not find the distinctions sought to be drawn by the Appellant to be substantial. First, the submission that [1]**Mudraksh** proceeded only under Section 5(8)(f) and not Section 5(8)(e) does not assist the Appellant: whichever illustrative sub-clause is invoked, the overriding requirement of Section 5(8) — disbursal against consideration for the time value of money, to the Corporate Debtor — remains unmet on these facts for the reasons noted above. Second, the submission that disbursal to the supplier "on behalf of" or "at the instance of" the Corporate Debtor should be treated as disbursal to the Corporate Debtor conflates the mode of payment with the character of the underlying liability: the money was paid to discharge a trade debt that the Corporate Debtor already owed for goods received: it was not paid to place funds at the Corporate Debtor's disposal for its own use.

62. [3]**Rajeev Kumar Jain (supra)**, relied on by the Appellant, does not arise from a structured, tripartite invoice-discounting platform of the present kind and does not purport to override the independent, non-negotiable requirement of consideration for the time value of money running to the corporate debtor; it is accordingly distinguishable and cannot be read as creating a conflict with [1]**Mudraksh**.

63. Furthermore [4]**Somesh A. Naik v. Isinox Ltd. (supra)** being an order of the NCLT cannot be relied upon to depart from [1]**Mudraksh**.

64. Furthermore, the fact that the Appellant is a scheduled commercial bank governed by RBI's sectoral prudential framework, as opposed to a non-banking financial company, has no bearing on the classification exercise under Section 5(8), which turns on the substance of the transaction between the specific parties and not on the general regulatory character of the claimant; an identical transaction does not change its character under the Code depending on whether the financier happens to be a bank or an NBFC.

65. We have considered [2]**Global Credit Capital Ltd. v. Sach Marketing Pvt. Ltd. (supra)**, on which the Appellant places considerable emphasis. The principle it enunciates — that the Adjudicating Authority must look to the real nature of a transaction as reflected in the parties' documents, and not merely to the label attached to it — is unexceptionable. In fact the same principle has been applied by us as noted above. We observe that the substance of the present transaction discloses a mechanism for early, discounted realisation of pre-existing trade payables through a regulated invoice-exchange platform, and not a lending relationship independent of the underlying sale of goods. Properly applied, therefore, [2]**Global Credit Capital** does not assist the Appellant; if anything, an honest application of its own methodology to the documents on this record confirms the operational character of the debt.

66. We accordingly hold that the transaction between the Appellant and the Corporate Debtor under the TReDS mechanism does not constitute 'financial debt' within the meaning of Section 5(8) of the Code, that the Appellant, upon

assignment of its suppliers' receivables, correctly falls to be treated as an Operational Creditor under Sections 5(20) and 5(21), and that the Resolution Professional's communication dated 18.12.2022 and the Impugned Order upholding that classification are correct in law.

67. The Appellant/Bank says the Impugned Order proceeded on a wrong basis that its counsel had conceded to being covered by [1]**Mudraksh (supra)** and thus vitiates the Impugned Order. Appellant/Bank contends that the Adjudicating Authority wrongly recorded a concession by its counsel. We need not decide if this is true. Even if we assume it is true, it makes no difference as we have examined the merits ourselves, independently and have reached the very same result the Adjudicating Authority reached. And we find that the claim is operational, not financial. An order that reaches the right result cannot be set aside for a small error in its reasoning. This is so where that error, even if real, changed nothing. It did not affect the outcome. Thus, it does not call for interference in appeal.

68. We have also considered the Appellant's reliance on [5]**Greater Noida Industrial Development Authority v. Prabhjit Singh Soni (supra)** for the proposition that a claim, even if lodged under the wrong head, must nonetheless be given due consideration and cannot simply be left out of the resolution plan altogether. We accept the principle, but it does not help the Bank/Appellant on the facts before us. Firstly, this judgment was pronounced during the year 2024 and the correspondence in the facts of the present case relate to the year 2022. Even then we find that the Resolution Professional

did not ignore the Appellant's claim; he classified it, by a reasoned communication dated 18.12.2022, as operational debt, and expressly directed the Appellant to file it in Form B so that it could be considered, and provided for, in that category. It was the Appellant's own choice, pursued over more than two years, to decline to file in Form B and to insist instead only on financial-creditor status, electing to litigate the classification question in I.A. No. 3206 of 2023 rather than protect its position in both categories. The Appellant filed its claim in Form B only on 12/13.03.2025 — after the Impugned Order dismissing I.A. 3206/2023 (13.02.2025), and well after the CoC had already approved the resolution plan (05.06.2024) and the approval application had been filed before the Adjudicating Authority (07.09.2024). On these facts, the omission of the Appellant's claim from the plan is attributable not to any illegality in the classification exercise or in the CIRP, but to the Appellant's own delay in complying with a classification. It was, at all times, at liberty to comply with under protest while pursuing its legal challenge.

69. We observe that [5]**Greater Noida** cannot be read to require a resolution plan to provide for a claim that a creditor has, by its own choice, declined to timely lodge in the correct category. We also record, in agreement with the submission of Respondent No. 1, that once the plan stood approved by the CoC and an application for its approval was pending before the Adjudicating Authority, it was not open to the Resolution Professional to suo motu revisit a classification that was, at that very time, sub judice before the Adjudicating

Authority in I.A. 3206/2023; judicial discipline required that the question abide the outcome of that proceeding, which is precisely what occurred.

70. Independently of our findings on the merits of the classification issue, we note that the resolution plan of the SRA was approved by the Adjudicating Authority on 09.10.2025, during the pendency of this appeal, and admittedly stands fully implemented. We are informed payments have been made to creditors in terms of the plan and the Monitoring Committee has been dissolved. It is well settled that a resolution plan, once approved and implemented, attains a binding and largely irreversible character. It cannot ordinarily be reopened or unsettled at the instance of a claimant except within the narrow limits of Section 61(3) of the Code. The Appellant/Bank has not brought its case within those limits, for the reasons noted here in earlier. To now direct reclassification would upset a completed insolvency resolution process. It would also prejudice creditors who acted in good faith and would also prejudice the SRA too. We will not take this course, especially so where the underlying claim itself fails on merits. This constitutes an independent and additional ground on which no relief can be granted to the Appellant in this appeal.

Conclusions

71. For the reasons recorded above, we hold:

- that the credit facility extended by the Appellant to the Corporate Debtor under the TReDS reverse-factoring mechanism is operational debt within the meaning of Section 5(21) of the Code, and not financial debt within the meaning of Section 5(8);

- that this conclusion is reinforced by, and consistent with, this Tribunal's decisions in **Mudraksh Investfin Pvt. Ltd. v. Brijesh Singh Bhadauriya** and **Minions Ventures Pvt. Ltd. v. TDT Copper Ltd.** (both supra), and is not displaced by **Global Credit Capital Ltd. v. Sach Marketing Pvt. Ltd**., **Rajeev Kumar Jain v. Uno Minda Ltd., or Somesh A. Naik v. Isinox Ltd. (all supra)**, each of which is either distinguishable on facts or does not, on a proper application of its own ratio, assist the Appellant;

- that **Greater Noida Industrial Development Authority v. Prabhjit Singh Soni (supra)**, pronounced in later point of time, does not assist the Appellant, whose claim was never omitted from consideration but was, on the Appellant's own election, never timely lodged in the correct category; and

- that the manner of disposal of I.A. 3206/2023, even if one of its stated reasons is disputed, does not vitiate a conclusion independently and correctly arrived at on the merits;

- that, in any event, the resolution plan having since been approved and fully implemented, with the Monitoring Committee dissolved, no relief that would unsettle that completed process can now be granted. The Impugned Order dated 13.02.2025 does not warrant any interference, and the appeal, being devoid of merit, is liable to be dismissed.

Orders

72. Based on the above analysis the appeal is dismissed. The Impugned Order dated 13.02.2025 passed by the Adjudicating Authority in I.A. No. 3206 of 2023 in CP(IB) No. 2688(ND)/2019 is affirmed.

73. It is clarified that this judgment does not preclude the Appellant from pursuing, in accordance with law, its claim in such manner and to such extent as may be permissible before the appropriate forum, and nothing herein shall be read as an expression of opinion on the merits or maintainability of that claim. All related IAs are also disposed of as per this order. No order as to costs.

[Justice N. Seshasayee]
Member (Judicial)

[Arun Baroka]
Member (Technical)

[Indevar Pandey]
Member (Technical)

New Delhi.
July 29, 2026.

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