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Beware Corporate Guarantors! You can't Escape the NCLT Net

India's dedicated bankruptcy court has admitted a loan default case against a corporate guarantor, sending a stern message to companies that pledging guarantees on behalf of a borrower is not a mere formality.

"Corporate guarantee is no more to be presumed as a comfort undertaking as it leads to definite monetary obligations dragging the corporate guarantor into insolvency ambit," said Babu Sivaprasad, head of banking and Finance, at Economic Law Practice. "A corporate guarantor being admitted for insolvency proceedings will strengthen future lending transactions."

An Ahmedabad bench of National Company Law Tribunal (NCLT) has begun insolvency proceedings against Starch Maker Anil Ltd. after one of its associate companies, Anil Nutrients Ltd, defaulted a term loan disbursed by Reliance Commercial Finance. The lender, the demerged arm of Reliance Capital, had advanced Rs 10 crore term loan to Anil Nutrient Ltd. "The application filed by the applicant deserves to be admitted," Bikki Raveendra Babu, judicial member at the NCLT Ahmedabad, said in the order that admitted the case against the guarantor.



Anil Ltd. had planned to expand its specialty cattle feed manufacturing subsidiary Anil Nutrients Ltd in 2014 with an investment of Rs. 700 crore as per the press statement issued then. Anil Nutrients availed the loan facility on December three years ago, with Anil Ltd as the corporate guarantor.

However, exactly after two years, Anil Nutrients Ltd and its guarantor Anil Ltd failed to repay Rs. 8.87 crore due to the lenders. Meanwhile, Reliance Capital learned that Anil Ltd owes huge amounts to other financial and operational creditors as well, as it has been making huge losses and is not in a position to clear its debts and liabilities.

Ahmedabad bench of NCLT admitted starch maker Anil Ltd for insolvency proceedings as one of its associate company, Anil Nutrients, defaulted on a loan taken from Reliance Commercial Finance.

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