

NATIONAL COMPANY LAW APPELLATE TRIBUNAL
AT CHENNAI
(APPELLATE JURISDICTION)

Company Appeal (AT) (CH) (Ins) No. 291/2026
(IA Nos. 821, 990 & 1411/2026)

In the matter of:

GV Krishna Reddy

Suspended Director of Kallam Textiles Ltd. & Anr.

... Appellants

Vs

Union Bank of India & Anr.

... Respondents

Present :

For Appellants : Mr. P. Kamalhasan, Advocate

For Respondents : Mr. R. Sankaranarayanan, Senior Advocate
For Mr. Peri Rama Krishna, Advocate for R1
Mr. M. Maharshi Viswaraj, Advocate for RP/R2

ORDER
(Hybrid Mode)

07.10.2026:

1. This appeal is listed for final hearing. When the matter was taken up, it was represented on behalf of the learned senior counsel appearing for the appellant that the learned senior counsel is held up in the Hon'ble High Court.
2. It may, however, be stated that in our order dated 30.09.2026, we have captured the solitary point on which the appellant has pivoted his case. And it is all about the applicability of the ratio of the Hon'ble Supreme Court in ***Pro Knits v. Board of Directors of Canara Bank [(2024) 10 SCC 292]***.

3. Mr. R. Sankaranarayanan, the learned senior counsel for the respondent that he may be heard and accordingly permitted him to address the court. The learned counsel submitted that the Central Government has come out with a notification in S.O. (E) 1432 and it reads as follows: -

“NOTIFICATION

S.O.(E). 1432 --- In exercise of the powers conferred in section 9 of the Micro, Small and Medium Enterprises Development Act, 2006, the Central Government, for the purpose of facilitating the promotion and development of Micro, Small and Medium Enterprises, hereby notifies the instructions for the Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises (hereinafter referred to as the "Framework"), which shall come into force on the date of its publication in the official Gazette, namely the Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises.

1. Identification of incipient stress

(1) Identification by Banks or creditors - Before a loan account of a Micro, Small and Medium Enterprise turns into a Non-Performing Asset (NPA), banks or creditors are required to identify incipient stress in the account by creating three sub - categories under the Special Mention Account (SMA) category as given in the Table below:

<i>Special Mention Account Sub-categories</i>	<i>Basis for classification</i>
<i>(1)</i>	<i>(2)</i>
<i>SMA-0</i>	<i>Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress.</i>
<i>SMA-1</i>	<i>Principal or interest payment overdue between 31-60 days.</i>
<i>SMA-2</i>	<i>Principal or interest payment overdue between 61-90 days.</i>

(2) Identification by the Enterprise - Any Micro, Small or Medium Enterprise may voluntarily initiate proceedings under this Framework if enterprise reasonably apprehends failure or its business or its inability or likely inability to pay debts and before the accumulated losses of the enterprise equals to half or more of its entire net worth.

(3) The application for initiation of the proceedings under this Framework shall be verified by an affidavit of authorised person.

(4) When such a request is received by lender, the account should be processed as SMA-0 and the Committee under this Framework should be formed immediately.

2. Committees for Stressed Micro, Small and Medium Enterprises.

(1) Subject to any regulations prescribed by the Reserve Bank of India for this Framework, all banks shall constitute one or more Committees at such locations as may be considered necessary by the board of directors of such bank to provide reasonable access, to all eligible Micro, Small and Medium enterprises which have availed of credit facilities from such bank.

(2) Subject to inclusion in categories referred to in Para 1, stressed Micro, Small and Medium Enterprises shall have access to the Committee for stressed Micro, Small and Medium Enterprises for deciding on a corrective action plan and determining the terms thereof in accordance with regulations prescribed in this Framework:

Provided that where the Committee decides that recovery is to be made as part of the corrective action plan, the manner and method of recovery shall be in accordance with the existing policies approved by the board of directors of the bank which has extended credit facilities to the enterprise, subject to any regulations prescribed by the Reserve Bank of India”.

4. The learned counsel submits that this notification is intended to operate before the loan advanced to an MSME is classified as NPA by the lender. And it also underscores the need to inform the bank, by the concerned MSMEs, of its status as an MSME with such documentary evidence. While it is true that the Hon’ble Supreme Court in ***Pro Knits*** case emphasised the strict adherence to the notification, it has also underscored the obligation on the concerned MSME to inform the lender of its status. This is captured in paragraph 21 of the said judgment, and it reads as below: -

“21. It is also pertinent to note that sufficient safeguards have been provided under the said Chapter for safeguarding the interest of the defaulters-borrowers for giving them opportunities to discharge their debt. However, if at the stage of classification of the loan account of the borrower as NPA, the borrower does not bring to the notice of the concerned bank/creditor that it is a Micro,

Small or Medium Enterprise under the MSMED Act and if such an Enterprise allows the entire process for enforcement of security interest under the SARFAESI Act to be over, or it having challenged such action of the concerned bank/creditor in the court of law/tribunal and having failed, such an Enterprise could not be permitted to misuse the process of law for thwarting the actions taken under the SARFAESI Act by raising the plea of being an MSME at a belated stage. Suffice it to say, when it is mandatory or obligatory on the part of the Banks to follow the Instructions/Directions issued by the Central Government and the Reserve Bank of India with regard to the Framework for Revival and Rehabilitation of MSMEs, it would be equally incumbent on the part of the concerned MSMEs to be vigilant enough to follow the process laid down under the said Framework, and bring to the notice of the concerned Banks, by producing authenticated and verifiable documents/material to show its to get the benefit of the said Framework”.

5. What is captured in the said paragraph is subsequently re-emphasised in ***Shri Shri Swami Samarth Construction and Finance Solution and Another Vs Board of Directors of NKGSB Co-op. Bank Ltd. and others (2025 SCC OnLine SC 1566)***. The relevant paragraph 8 is extracted hereunder: -

“8. Pro-Knits⁹ is a decision of a coordinate Bench of this Court holding, inter alia, that the Notification is binding on the lending banks/secured creditors. Finding to the contrary by the High Court of Bombay in the judgment and order under challenge in the appeal was, thus, quashed. Though while stressing that the terms of the FRAMEWORK need to be followed by the lending banks/secured creditors before the account of an micro, small and

medium enterprises by holding that “it would be equally incumbent on the part of the micro, small and medium enterprises concerned to be vigilant enough to follow the process laid down under the said framework, and bring to the notice of the banks concerned, by producing authenticated and verifiable documents/material to show its eligibility to get the benefit of the said framework”. It was cautioned that “if such an enterprise allows the entire process for enforcement of security interest under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act to be over, or it having challenged such action of the bank/creditor concerned in the court of law/tribunal and having failed, such an Enterprise could not be permitted to misuse the process of law for thwarting the actions taken under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act by raising the plea of being an micro, small and medium enterprise at a belated stage”. This decision, however, left unsaid something which we have explained hereinabove while construing the terms consistently to prevent undermining of rights that one central enactment confers by another”.

6. The learned counsel submits in the instant case, the lender has notified the loan advanced to the corporate debtor as NPA on 29.06.2023, whereas the corporate debtor has registered it as an MSME only on 01.08.2025, a little over two years from the date of NPA.
7. Secondly, after the petition under Section 7 was instituted on 29.12.2025, the banks have been generous enough to grant repeated opportunities to the appellant to come out with its proposal for settlement, and each of them

failed. Even now, the proposal which the appellant submitted for the repayment plan is pending over some 13-14 years.

8. Apart from this, the RBI, in a circular dated 17.03.2026, has indicated that the application of the notification in S.O. (E) 1432 dated 29.05.2015 is only for loans approved of Rs.25 crores, whereas in the present case, well over Rs.200 crores.

For the submissions of the appellant, list this appeal on **19.11.2026 @ 12 pm.**

[Justice N. Seshasayee]
Member (Judicial)

[Jatindranath Swain]
Member (Technical)

VG/LP/MS