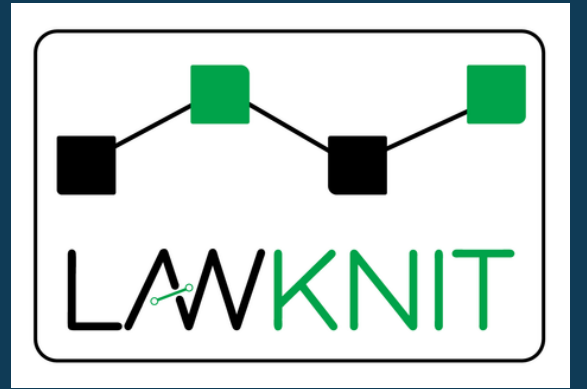


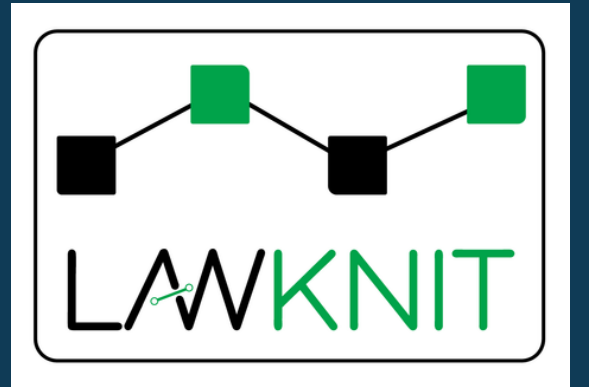
01/06



# LAWKNIT ANALYSIS

Interest on invoices of  
Operational Creditor under  
IB Code

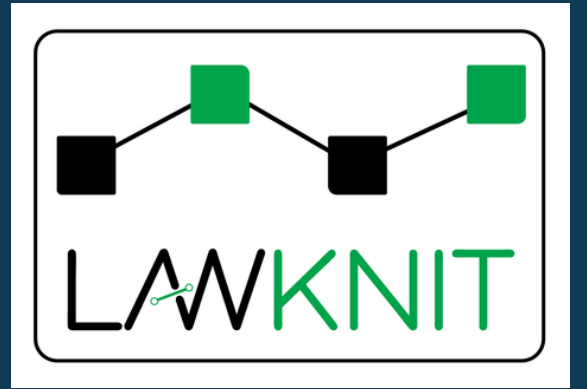




## EXECUTIVE SUMMARY

- A recent ruling of NCLAT has ruled on the issue pertaining to inclusion of interest amount in the operational debt when such interest is payable under the terms of an invoice issued to corporate debtor (“**CD**”).
- The order made in the case of Rishabh Infra Vs. Sadbhav Engg. Ltd. emphasizes on non-binding nature of invoice terms and absence of interest clause under the Agreement. The NCLAT has ruled that mere mentioning of interest while issuing an invoice would not create any obligation on CD for payment of such interest.

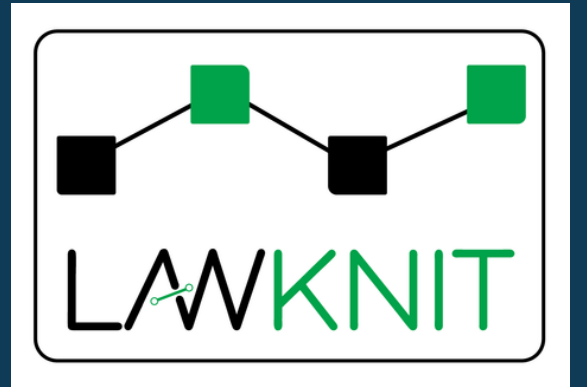




## FACTS OF THE CASE

- The operational creditor (“**OC**”) filled an application under section 9 of Insolvency and Bankruptcy Code, 2016 (“**IB Code**”) claiming an amount of INR 2,61,24,020/- (inclusive of interest of INR 72,72,659/- @ 24%).
- The CD paid the entire principal amount of INR 1,88,51,361/- and didn’t pay the interest amount. Recording that entire principal amount is already paid, the NCLT rejected the application.
- The OC filled an appeal in NCLAT against the order rejecting the application for payment of interest amount.



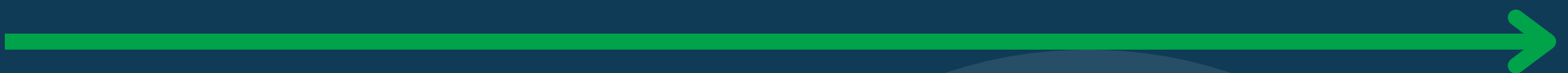


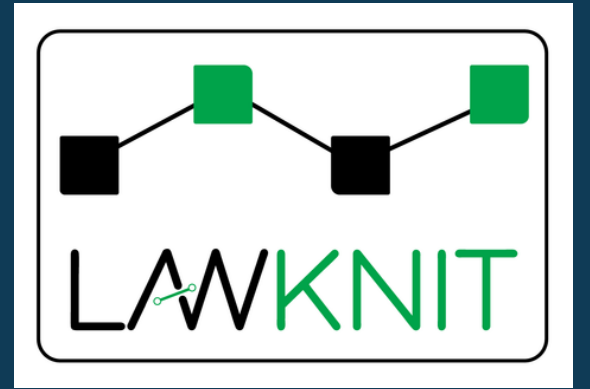
## ISSUES

- Whether the interest be levied on principal amount in absence any provision for the same under the agreement between the Parties?
- Would the invoices containing amount of interest @24% p.a. bound the CD?

## ARGUMENTS

- The OC argued that no settlement was reached between the Parties regarding the payment of amount excluding the interest and the claimed invoices clearly mentioned interest 24% p.a. as part of the payment terms.
- The CD argued that there was no agreement between Parties for interest payment and highlighted that the work order entered into between the Parties did not specify any interest obligations.

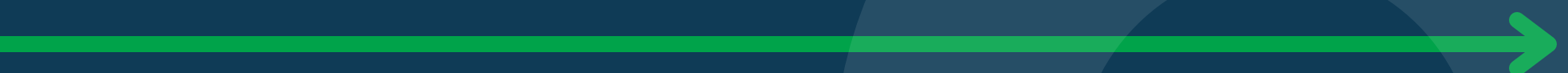




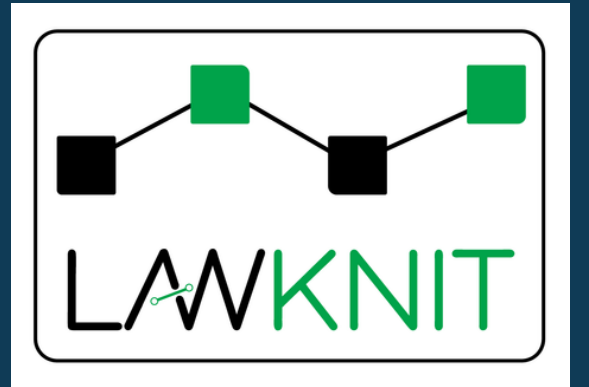
## JUDGEMENT & OBSERVATIONS

- The NCLAT reviewed the payment clause of work order which was as under:

“9) Monthly Billing & Payment: Monthly bills/invoice shall be raised for the previous month by the day of the following month and the payment will be released within 10 days from the date of certification. The bills/invoice shall be duly certified by Sadbhav Engineering Ltd. Authorized representative. Jointly signed log sheets to be submitted along with Bills for processing the payment.”
- Upon reviewing the above payment clause, the NCLAT concluded that it did not establish any obligation for interest payment by the CD.
- The NCLAT dismissed the appeal stating that, the principal amount is already paid and the invoices mentioning interest terms could not be enforced without specific agreement or acknowledgment by the CD.



06/06



## LAWKNIT ANALYSIS

- This order evaluates the validity of an invoice as a legal document. An invoice is merely a commercial document and cannot be used to enforce interest payment liabilities of the other party in absence of any agreement.
- This order also points out the necessity of clear and specific payment clause under agreements which contain entire understanding between the parties.
- As payment of interest amount on delayed payments always remains disputed, capturing such terms in an agreement is a more secured option rather than entering it as terms of an invoice which is not signed by both parties.

In case of any queries/clarifications, please feel free to reach out to Mr. Arunabh Choudhary at [arunabh@lawknit.co](mailto:arunabh@lawknit.co); Mr. Amol Apte at [amol.apte@lawknit.co](mailto:amol.apte@lawknit.co); Ms. Tanvi Muraleedharan at [tanvi.muraleedharan@lawknit.co](mailto:tanvi.muraleedharan@lawknit.co); Ms. Renu Sirothiya at [renu.sirothiya@lawknit.co](mailto:renu.sirothiya@lawknit.co)

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