9.0 Definitions

Sick Industrial Company
Sick Industrial Company means an industrial undertaking which has
(i) the accumulated losses in any financial year equal to fifty per cent or more of its average
net worth during four years immediately preceding such financial year; or
(ii) failed to repay its debts within any three consecutive quarters on demand made in writing
for its repayment by a creditor or creditors of such company.

Industrial undertaking
“Industrial undertaking” means any undertaking, pertaining to any industry carried on in one or
more factories or units by any company, as defined in clause (aa) of section 3 of the Industries
(Development and Regulation) Act, 1951 (65 of 1951) but does not include a small-scale
industrial undertaking as defined in clause (j) of that section [Section 2 (19AB)].

Net Worth
“Net worth” means the sum total of the paid-up capital and free reserves after deducting the
provisions or expenses as may be prescribed.

Explanation.—For the purposes of this clause, “free reserves” means all reserves created out
of the profits and share premium account but does not include reserves created out of
revaluation of assets, write back of depreciation provisions and amalgamation [Section 2
(29A)].

Operating Agency
“Operating agency” means any group of experts consisting of persons having special
knowledge of business or industry in which the sick industrial company is engaged and
includes public financial institution, State level institution, scheduled bank or any other person
as may be specified as the operating agency by the Tribunal [Section 2 (31AA)].

Industrial Company
“Industrial company” means a company which owns one or more industrial undertakings
[Section 2 (19AA)]
9.1 Procedure for Revival and Rehabilitation

9.1.1 Reference to Tribunal

(a) The Board of directors of a sick industrial company shall make a reference to the Tribunal and prepare a scheme of its revival and rehabilitation.

(b) Such a reference shall be made to the Tribunal along with an application containing such particulars as may be prescribed, for determination of the measures which may be adopted with respect to such company.

(c) The application shall be accompanied by a certificate from an auditor or from a panel of auditors prepared by the Tribunal indicating—

(i) the reasons of the net worth of such company being fifty per cent or less than fifty per cent; or

(ii) the default in repayment of its debt making such company a sick industrial company, as the case may be.

(d) The provisions of Section 424A (i) shall not apply to a Government company.

(e) However a Government company may, with the prior approval of the Central Government or a State Government, as the case may be, make a reference to the Tribunal in accordance with the provisions of this sub-section and thereafter all the provisions of this Act shall apply to such Government company.

(f) In case any reference had been made before the Tribunal and a scheme for revival and rehabilitation submitted before the commencement of the Enforcement of Security Interest and Recovery of Debts Laws (Amendment) Act, 2004, such reference shall abate if the secured creditors representing three-fourth in value of the amount outstanding against financial assistance disbursed to the borrower have taken measures to recover their secured debt under sub-section (4) of section 13 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (54 of 2002):

(g) No reference shall be made to the Tribunal under Section 424A (i) if the secured creditors representing three-fourth in value of the amount outstanding against financial assistance disbursed to the borrower have taken measures to recover their secured debt under sub-section (4) of section 13 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (54 of 2002).

(h) The Central Government or the Reserve Bank or a State Government or a public financial institution or a State level institution or a scheduled bank without prejudice to the provisions contained in Section 424A (1), may if it has sufficient reasons to believe that any industrial company has become, for the purposes of this Act, a sick industrial company, make a reference in respect of such company to the Tribunal for determination of the measures which may be adopted with respect to such company:
A reference shall not be made under Section 424A (1) in respect of any industrial company by—

(a) the Government of any State unless all or any of the industrial undertakings belonging to such company are situated in such State;

(b) a public financial institution or a State level institution or a scheduled bank unless it has, by reason of any financial assistance or obligation rendered by it, or undertaken by it, with respect to such company, an interest in such company.

A reference under Section 424A (1) or (3) shall be made to the Tribunal within a period of one hundred and eighty days from the date on which the Board of directors of the company or the Central Government or the Reserve Bank of India or a State Government or a public financial institution or a State level institution or a scheduled bank, as the case may be, come to know, of the relevant facts giving rise to causes of such reference or within sixty days of final adoption of accounts, whichever is earlier.

The Tribunal may, on receipt of a reference, pass an order as to whether a company in respect of which a reference has been made has become a sick industrial company and such order shall be final.

9.2 Inquiry into Working of Sick Industrial Companies (Section 424B)

(a) The Tribunal may make such inquiry as it may deem fit for determining whether any industrial company has become a sick industrial company—

(i) upon receipt of a reference with respect to such company under section 424A; or

(ii) upon information received with respect to such company or upon its own knowledge as to the financial condition of the company.

(b) The Tribunal may, if it deems necessary or expedient so to do for the expeditious disposal of an inquiry, require by order any operating agency to enquire into the scheme for revival and make a report with respect to such matters as may be specified in the order.

(c) The operating agency shall complete its inquiry as expeditiously as possible and submit its report to the Tribunal within twenty-one days (extendable to forty days with reasons to be recorded in writing) from the date of such order.

(d) The Tribunal shall conclude its enquiry as expeditiously as possible and pass final orders in the proceedings within sixty days extendable to ninety days with reasons to be recorded in writing) from the commencement of the inquiry. An inquiry shall be deemed to have commenced upon the receipt by the Tribunal of any reference or information or upon its own knowledge reduced to writing by the Tribunal.

(e) Where the Tribunal deems it fit to make an enquiry or to cause an inquiry to be made in to any industrial company, as the case may be, it may appoint one or more persons who possess knowledge, experience and expertise in management and control of the affairs of any other company to be a special director or special directors on the board of such industrial company on such terms and conditions as may be prescribed for safeguarding its financial and other interests or in the public interest.
(f) The special director or special directors appointed for the purpose shall submit a report to the Tribunal within sixty days from the date of appointment of such director or directors about the state of affairs of the company in respect of which reference has been made and such special director or directors shall have all the powers of a director of a company under this Act, necessary for discharge of his or their duties.

(g) The Tribunal may issue such directions to a special director appointed as it may deem necessary or expedient for proper discharge of his duties.

(h) The appointment of a special director shall be valid and effective notwithstanding anything to the contrary contained in any other provision of this Act or in any other law for the time being in force or in the memorandum and articles of association or any other instrument relating to the industrial company, and any provision regarding share qualification, age limit, number of directorships, removal from office of directors and such like conditions contained in any such law or instrument aforesaid, shall not apply to any special director or directors appointed by the Tribunal.

(i) Any special director appointed, shall—
(a) hold office during the pleasure of the Tribunal and may be removed or substituted by any person by order of the Tribunal;
(b) not incur any obligation or liability by reason only of his being a director or for anything done or omitted to be done in good faith in the discharge of his duties as a director or anything in relation thereto;
(c) not be liable to retirement by rotation and shall not be taken into account for computing the number of directors liable to such retirement;
(d) not be liable to be prosecuted under any law for anything done or omitted to be done in good faith in the discharge of his duties in relation to the sick industrial company.

9.3 Powers of Tribunal to Make Suitable Order on Completion of Inquiry (Section 424C)

(a) If after making an inquiry under section 424B, the Tribunal is satisfied that a company has become a sick industrial company, the Tribunal shall, after considering all the relevant facts and circumstances of the case, decide, as soon as may be, by an order in writing, whether it is practicable for the company to make its net worth exceed the accumulated losses or make the repayment of its debts referred to in clause (b) of sub-section (2) of section 424A within a reasonable time.

(b) If the Tribunal decides that it is practicable for a sick industrial company to make its net worth exceed the accumulated losses or pay its debt referred to in that sub-section within a reasonable time, the Tribunal shall, by order in writing and subject to such restrictions or conditions as may be specified in the order, give such time to the company as it may deem fit to make its net worth exceed the accumulated losses or make repayment of the debts.

(c) If the Tribunal decides that it is not practicable for a sick industrial company to make its net worth exceed the accumulated losses or make the repayment of its debts within a
reasonable time and that it is necessary or expedient in the public interest to adopt all or any of the measures specified in section 424D in relation to the said company it may, as soon as may be, by order in writing, direct any operating agency specified in the order to prepare, having regard to such guidelines as may be specified in the order, a scheme providing for such measures in relation to such company.

(d) The Tribunal may, if any of the restrictions or conditions specified in an order made under sub-section (2) are not complied with by the company concerned, or if the company fails to revive in pursuance of the said order, review such order on a reference in that behalf from any agency referred to in sub-section (3) of section 424A or on its own motion and pass a fresh order in respect of such company under sub-section (3) and if the operating agency specified in an order made under sub-section (3) makes a submission in that behalf, review such order and modify the order in such manner as it may deem appropriate.

9.4 Preparation and Sanction of Schemes (Section 424D)

(1) Where an order is made under sub-section (3) of section 424C in relation to any sick industrial company, the operating agency specified in the order shall prepare as expeditiously as possible and ordinarily within a period of sixty days (extendable to ninety days with reasons to be recorded in writing) from the date of such order, having regard to the guidelines framed by the Reserve Bank of India in this behalf, a scheme with respect to such company providing for any one or more of the following measures, namely:

(a) the financial reconstruction of such industrial company;
(b) the proper management of such industrial company by change in, or take over of, the management of such industrial company;
(c) the amalgamation of—
   (i) such industrial company with any other company; or
   (ii) any other company with such industrial company (hereafter in this section, in the case of sub-clause (i), the other company, and in the case of sub-clause (ii), such industrial company, referred to as “transferee company”);
(d) the sale or lease of a part or whole of any industrial undertaking of such industrial company;
(e) the rationalisation of managerial personnel, supervisory staff and workmen in accordance with law;
(f) such other preventive, ameliorative and remedial measures as may be appropriate;
(g) repayment of debt;
(h) such incidental, consequential or supplemental measures as may be necessary or expedient in connection with or for the purposes of the measures specified in clauses (a) to (g):
(2) The scheme may provide for any one or more of the following, namely:—

(a) the constitution, name and registered office, the capital, assets, powers, rights, interests, authorities and privileges, duties and obligations of the sick industrial company or, as the case may be, of the transferee company;

(b) the transfer to the transferee company of the business, properties, assets and liabilities of the sick industrial company on such terms and conditions as may be specified in the scheme;

(c) any change in the Board of directors, or the appointment of a new Board of directors, of the sick industrial company and the authority by whom, the manner in which and the other terms and conditions on which, such change or appointment shall be made and in the case of appointment of a new Board of directors or of any director, the period for which such appointment shall be made;

(d) the alteration of the memorandum or articles of association of the sick industrial company or, as the case may be, of the transferee company for the purpose of altering the capital structure thereof, or for such other purposes as may be necessary to give effect to the reconstruction or amalgamation;

(e) the continuation by or against the sick industrial company or, as the case may be, the transferee company of any action or other legal proceeding pending against the sick industrial company immediately before the date of the order made under sub-section (3) of section 424C;

(f) the reduction of the interest or rights which the shareholders have in the sick industrial company to such extent as the Tribunal considers necessary in the interests of the reconstruction, revival or rehabilitation or repayment of debts of such sick industrial company or for the maintenance of the business of such industrial company;

(g) the allotment to the shareholders of the sick industrial company, of shares in such company or, as the case may be, in the transferee company and where any shareholder claims payment in cash and not allotment of shares or where it is not possible to allot shares to any shareholder, the payment of cash to those shareholders in full satisfaction of their claims—

(i) in respect of their interest in shares in the sick industrial company before its reconstruction or amalgamation; or

(ii) where such interest has been reduced under clause (f) in respect of their interest in shares as so reduced;

(h) any other terms and conditions for the reconstruction or amalgamation of the sick industrial company;

(i) sale of the industrial undertaking of the sick industrial company free from all encumbrances and all liabilities of the company or other such encumbrances and liabilities as may be specified, to any person, including a co-operative society formed by the employees of such undertaking and fixing of reserve price for such sale;
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(j) lease of the industrial undertaking of the sick industrial company to any person, including a co-operative society formed by the employees of such undertaking;

(k) method of sale of assets of the industrial undertaking of the sick industrial company such as by public auction or by inviting tenders or in any other manner as may be specified and for the manner of publicity therefor;

(l) issue of the shares in the sick industrial company at the face value or at the intrinsic value which may be at discount value or such other value as may be specified to any industrial company or any person including the executives and employees of such sick industrial company;

(m) such incidental, consequential and supplemental matters as may be necessary to secure that the reconstruction or amalgamation or other measures mentioned in the scheme are fully and effectively carried out.

(3) Scrutiny of the Scheme

(i) The scheme prepared by the operating agency shall be examined by the Tribunal and a copy of the scheme with modification, if any, made by the Tribunal shall be sent, in draft, to the sick industrial company and the operating agency and in the case of amalgamation, also to any other company concerned, and the Tribunal may publish or cause to be published the draft scheme in brief in such daily newspapers as the Tribunal may consider necessary, for suggestions and objections, if any, within such period as the Tribunal may specify.

(ii) The complete draft scheme shall be kept at the place where registered office of the company is situated or at such places as mentioned in the advertisement.

(iii) The Tribunal may make such modifications, if any, in the draft scheme as it may consider necessary in the light of the suggestions and objections received from the sick industrial company and the operating agency and also from the transferee company and any other company concerned in the amalgamation and from any shareholder or any creditors or employees of such companies: Where the scheme relates to amalgamation, the said scheme shall be laid before the company other than the sick industrial company in the general meeting for the approval of the scheme by its shareholders and no such scheme shall be proceeded with unless it has been approved, with or without modification, by a special resolution passed by the shareholders of the transferee company.

(iv) The sanctioned scheme may thereafter be sanctioned, within sixty days (extendable to ninety days with reasons to be recorded in writing) by the Tribunal and shall come into force on such date as the Tribunal may specify in this behalf: Different dates may be specified for different provisions of the scheme.

(v) The Tribunal may, on the recommendations of the operating agency or otherwise, review any sanctioned scheme and make such modifications as it may deem fit or may by order in writing direct any operating agency specified in the order, having regard to such guidelines including the guidelines framed by the Reserve Bank of India in this behalf in
order to prepare a fresh scheme providing for such measures as the operating agency may consider necessary.

(vi) When a fresh scheme is prepared, the provisions of sub-sections (3) and (4) of Section 424D shall apply in relation thereto as they apply to in relation to a scheme prepared under section 424D(1).

(vii) Where a sanctioned scheme provides for the transfer of any property or liability of the sick industrial company in favour of any other company or person or where such scheme provides for the transfer of any property or liability of any other company or person in favour of the sick industrial company, then, by virtue of, and to the extent provided in, the scheme, on and from the date of coming into operation of the sanctioned scheme or any provision thereof, the property shall be transferred to, and vest in, and the liability shall become the liability of, such other company or person or, as the case may be, the sick industrial company.

(viii) The sanction accorded by the Tribunal shall be conclusive evidence that all the requirements of this scheme relating to the reconstruction or amalgamation, or any other measure specified therein have been complied with and a copy of the sanctioned scheme certified in writing by an officer of the Tribunal to be a true copy thereof, shall, in all legal proceedings (whether in appeal or otherwise), be admitted as evidence.

(ix) A copy of the sanctioned scheme shall be filed with the Registrar within the prescribed time by the company in respect of which such scheme relates.

(x) On and from the date of the coming into operation of the sanctioned scheme or any provision thereof, the scheme or such provision shall be binding on the sick industrial company and the transferee company or, as the case may be, the other company and also on the shareholders, creditors and guarantors and employees of the said companies.

(xi) The creditors of a sick industrial company may also prepare a scheme for revival or rehabilitation of such sick industrial company and submit the same to the Tribunal for its sanction: No scheme shall be submitted by the creditors to the Tribunal unless such scheme has been approved by at least three-fourth in value of creditors of the sick industrial company.

(xii) All the provisions relating to the preparation of scheme by the operating agency and sanction of such scheme by the Tribunal shall, as far as may be, apply to the scheme referred to in sub-section (11) of Section 424D.

(xiii) The scheme referred to in sub-section (11) if sanctioned by the Tribunal shall be binding on all the creditors and on other concerned.

(xiv) If any difficulty arises in giving effect to the provisions of the sanctioned scheme, the Tribunal may, on the recommendation of the operating agency or otherwise, by order, do anything, not inconsistent with such provisions, which appears to it to be necessary or expedient for the purpose of removing the difficulty.
The Tribunal may, if it deems necessary or expedient so to do, by order in writing, direct any operating agency specified in the order to implement a sanctioned scheme with such terms and conditions and in relation to the sick industrial company as may be specified in the order.

Where the whole of the undertaking of the sick industrial company is sold under a sanctioned scheme, the Tribunal may distribute the sale proceeds to the parties entitled thereto in accordance with the provisions of section 529A and other provisions of this Act.

The Tribunal may monitor periodically the implementation of the sanctioned scheme.

**9.5 Rehabilitation by Giving Financial Assistance (Section 424E)**

(1) Where the scheme relates to preventive, ameliorative, remedial and other measures with respect to the sick industrial company, the scheme may provide for financial assistance by way of loans, advances or guarantees or reliefs or concessions or sacrifices from the Central Government, a State Government, any scheduled bank or other bank, a public financial institution or State level institution or any institution or other authority (any Government, bank, institution or other authority required by a scheme to provide for such financial assistance being hereafter in this section referred to as the person required by the scheme to provide financial assistance) to the sick industrial company.

(2) Every scheme shall be circulated to every person required by the scheme to provide financial assistance for his consent within a period of sixty days from the date of such circulation or within such further period, not exceeding sixty days, as may be allowed by the Tribunal and if no consent is received within such period or further period, it shall be deemed that consent has been given.

(3) Where in respect of any scheme the consent is given by every person required by the scheme to provide financial assistance, the Tribunal may, as soon as may be, sanction the scheme and on and from the date of such sanction the scheme shall be binding on all concerned.

(4) On the sanction of the scheme, the financial institutions and the banks required to provide financial assistance, shall designate by mutual agreement a financial institution and a bank from amongst themselves which shall be responsible to disburse financial assistance by way of loans or advances or guarantees or reliefs or concessions or sacrifices agreed to be provided or granted under the scheme on behalf of all financial institutions and banks concerned.

(5) The financial institution and the bank designated shall forthwith proceed to release the financial assistance to the sick industrial company in fulfilment of the requirement in this regard.

(6) Where in respect of any scheme consent is not given by any person required by the scheme to provide financial assistance, the Tribunal may adopt such other measures, including the winding up of the sick industrial company, as it may deem fit.
9.6 Arrangement for Continuing Operations, etc., during Inquiry (Section 424F)

(1) At any time before completion of the inquiry under section 424B, the sick industrial company or the Central Government or the Reserve Bank of India or a State Government or a public financial institution or a State level institution or a scheduled bank or any other institution, bank or authority providing or intending to provide any financial assistance by way of loans or advances or guarantees or reliefs, or concessions to such industrial company may make an application to the Tribunal—

(a) agreeing to an arrangement for continuing the operations of the sick industrial company; or

(b) suggesting a scheme for the financial reconstruction of the sick industrial company.

(2) The Tribunal may, within sixty days of the receipt of the application, pass such orders thereon as it may deem fit.

9.7 Winding Up of Sick Industrial Company (Section 424G)

(1) Where the Tribunal after making inquiry under section 424B and after consideration of all the relevant facts and circumstances and after giving an opportunity of being heard to all concerned parties, is of the opinion that the sick industrial company is not likely to make its net worth exceed the accumulated losses within a reasonable time while meeting all its financial obligations and that the company as a result thereof is not likely to become viable in future and that it is just and equitable that the company should be wound up, it may record its findings and order winding up of the company.

(2) For the purpose of winding up of the sick industrial company, the Tribunal may appoint any officer of the operating agency, if the operating agency gives its consent, as the liquidator of such industrial company and the officer so appointed shall for the purpose of the winding up of such sick industrial company, be deemed to be, and have all the powers of, the official liquidator under this Act.

(3) The Tribunal may cause to be sold the assets of the sick industrial company in such manner as it may deem fit and pass orders for distribution in accordance with the provisions of section 529A, and other provisions of this Act.

(4) Without prejudice to the other provisions contained in the Companies Act, 1956 the winding up of a company shall, as far as may be, concluded within one year from the date of the order.

9.8 Operating Agency to Prepare Complete Inventory, etc. (Section 424H)

For the proper discharge of the functions of the Tribunal under this Part, the circumstances so require, the Tribunal may, through any operating agency, cause to be prepared—

(a) with respect to a company a complete inventory of—
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9.11 Misfeasance Proceedings Section (424K)

(1) If, in the course of scrutiny or implementation of any scheme or proposal, it appears to the Tribunal that any person who has taken part in the promotion, formation or management of the sick industrial company or its undertaking, including any past or present director, manager or officer or employee of the sick industrial company—

(a) has misapplied or retained, or become liable or accountable for, any money or property of the sick industrial company; or

(b) has been guilty of any misfeasance, malfeasance or non-feasance or breach of trust in relation to the sick industrial company,

the Tribunal may, by order, direct him to repay or restore the money or property or any part thereof, with or without interest, as it thinks just, or to contribute such sum to the assets of the sick industrial company or the other person, entitled thereto by way of compensation in respect of the misapplication, retainer, misfeasance or breach of trust as the Tribunal thinks just, and also report the matter to the Central Government for any other action which that Government may deem fit.
(2) If the Tribunal is satisfied on the basis of the information and evidence in its possession with respect to any person who is or was a director or an officer or other employee of the sick industrial company, that such person by himself or along with others had diverted the funds or other property of such company for any purpose other than a bona fide purpose of the company or had managed the affairs of the company in a manner highly detrimental to the interests of the company, the Tribunal shall by order, direct the public financial institutions, scheduled banks and State level institutions not to provide, during a period of ten years from the date of the order, any financial assistance to such person or any firm of which such person is a partner or any company or other body corporate of which such person is a director (by whatever name called).

(3) No order shall be made by the Tribunal against any person unless such person has been given an opportunity for making his submissions.

(4) The provisions of Section 424K shall apply notwithstanding that the matter is one for which the person may be criminally liable.

9.12 Penalty for Certain Offences (Section 424L)

(1) Whoever violates provisions of this Part or any scheme, or any order, of the Tribunal or the Appellate Tribunal or makes a false statement or gives false evidence to the Tribunal or the Appellate Tribunal and attempts to tamper the records of reference or appeal filed under this Act, shall be punishable with simple imprisonment for a term which may extend to three years or shall be liable to fine not exceeding ten lakh rupees.

(2) No court shall take cognizance of any offence except on a complaint in writing of an officer of the Tribunal or the Appellate Tribunal or any officer of the Central Government authorised by it or any officer of an operating agency as may be authorised in this behalf by the Tribunal or the Appellate Tribunal as the case may be.

Note: In this chapter, wherever the word ‘Act’ is used, it refers to the Companies Act, 1956.