Supreme Court Rules CRPS Holders Not Financial Creditors Under IBC: EPC Constructions v. Matix Fertilizers

Introduction

In a significant development under India's insolvency regime, the Supreme Court has drawn a clear line between equity and debt instruments, resolving the long-standing ambiguity around the status of redeemable preference shares under the Insolvency and Bankruptcy Code, 2016 (IBC).

The Supreme Court of India in *EPC Constructions India Limited v. Matix Fertilizers and Chemicals Limited* clarified that holders of Cumulative Redeemable Preference Shares ("**CRPS**") cannot be treated as financial creditors under the Insolvency and Bankruptcy Code, 2016 ("**IBC**").

Key Legal Observations by the Court

The Court held that preference shareholders are investors and not lenders, and their claims for redemption cannot constitute a "financial debt" capable of triggering insolvency proceedings under Section 7 of the IBC. The Court further held that IBC cannot be invoked as a recovery mechanism for equity investments, even if the redemption period for preference shares has expired.

The Court observed that preference shares formed a part of the share capital of a company under Section 43(b) of the Companies Act, 2013, and do not constitute loans.

Under Sections 3(11), 3(12), and 7 of the IBC, insolvency proceedings can only be triggered when there is a default in repayment of a debt. The Court emphasised that redemption of preference shares under Section 55 of the Companies Act can occur only out of profits available for dividend or proceeds of fresh share issues. Since Matix had no such profits or proceeds, no legally enforceable liability had arisen, and hence no default existed under the IBC.

The Court further held that an accounting treatment cannot override the legal nature of a transaction. The court observed that accounting standards may classify an instrument as a liability, but that does not alter its legal character under company or insolvency law. This was in relation to the contention raised by EPCC that Matix's balance sheets classified CRPS as "unsecured loans" or "financial liabilities".

The Court observed that the essence of a financial debt lies in the element of borrowing and repayment. Paid-up share capital, even if redeemable, lacks the element of disbursal and the time value of money that defines a financial transaction. Thus, the Supreme Court concluded that the CRPS, being part of the company's share capital, did not possess the essential characteristics of a financial debt.

Conclusion

The Supreme Court in EPC Constructions v. Matix Fertilizers has firmly established that CRPS constitute equity and not financial debt under the IBC. The ruling prioritises legal substance over accounting form and prevents misuse of the IBC as a tool for recovering equity investments, thereby preserving the integrity of insolvency law.