SARFAESI Act cannot operate as an independent source of enforcement power once a resolution plan under IBC extinguishes the underlying debt. Thus, continuation of lien in absence of a subsisting enforceable debt is alleged to be without authority of law and violative of Article 300-A of the Constitution

The **Orissa High Court** in the case of **Sree Metaliks Limited vs Zonal Manager, State Bank of India [W.P.(C) No.27912 of 2025] dated March 13, 2026**, has held that Section 31 of the SARFAESI Act cannot operate as an independent source of enforcement power once a resolution plan under the Insolvency and Bankruptcy Code extinguishes the underlying debt. Section 31 excludes certain secured assets and transactions from the Act's enforcement mechanism, meaning SARFAESI recovery powers do not apply to them. Thus, the bank could not appropriate the deposit after the debt stood satisfied.

The Court explained that Section 31 of the SARFAESI Act cannot be construed as a reservoir of enforcement power detached from the existence of a subsisting and legally recoverable debt. The scheme of the Act predicates enforcement of security interest upon the continued existence of a financial liability. Once the debt has been assigned and thereafter resolved and satisfied in accordance with an approved Resolution Plan under the Insolvency and Bankruptcy Code, 2016, the very foundation for invocation of ancillary or derivative rights ceases to exist.

The Court observed that SBI lacked legal authority to retain or appropriate the fixed deposit after extinguishment of the debt and ruled that the action amounted to unlawful deprivation of property under Article 300A of the Constitution. The continuation of lien in absence of a subsisting enforceable debt is alleged to be without authority of law and violative of Article 300-A of the Constitution. The Court thus held that where the action impugned is demonstrably without legal foundation and results in unlawful deprivation of property, relegating the Petitioner to an alternative forum would amount to perpetuating further illegality. Accordingly, the High Court directed SBI to release the fixed deposit along with accrued interest to the petitioner.