A bank's internal classification of a loan as a non-performing asset for accounting or provisioning purposes does not by itself determine the commencement of limitation under the Insolvency and Bankruptcy Code, especially where the debt has subsequently been restructured and acknowledged through fresh agreements

The **Supreme Court** in the case of **B Prashanth Hegde v. State Bank of India [Civil Appeal No. 477 of 2022] dated February 12, 2026**, has held that a bank's internal classification of a loan as a non-performing asset for accounting or provisioning purposes does not by itself determine the commencement of limitation under the Insolvency and Bankruptcy Code, especially where the debt has subsequently been restructured and acknowledged through fresh agreements.

The Court observed that the manner in which a bank reflects a debt in its balance sheet is not decisive for computing limitation. Where restructuring takes place and fresh working capital consortium agreements are executed acknowledging subsisting liabilities, such agreements effectively give the debt a "fresh lease of life". In such circumstances, the later Non-Performing Asset (NPA) dates arising from restructuring become relevant for calculating limitation.

The Court noted that the restructuring exercise involved execution of fresh agreements acknowledging existing dues, and that these acknowledgments revived the enforceability of the debt for limitation purposes. Disclosure of subsequent NPA dates, along with written acknowledgment in the balance sheets, sufficiently demonstrated that the claim was within limitation when the application was filed on April 25, 2018. On the evidentiary value of balance sheets, the Court reiterated that a written acknowledgment of liability signed by the party against whom the right is claimed attracts Section 18 of the Limitation Act and gives rise to a fresh period of limitation. It held that a director acts as an agent of the company for the purposes of Section 18, and therefore a balance sheet signed by a director can amount to a valid acknowledgment.

The Court observed that since the balance sheets were signed by a director and were relied upon by the company itself in proceedings before the Debt Recovery Tribunal, they were sufficient to extend limitation. The Court also reaffirmed that once the Adjudicating Authority is satisfied that a financial debt exists and that default above the statutory threshold has occurred, there is little discretion to refuse admission of a Section 7 application under the IBC.