Under the insolvency process, only a security interest created over the assets of the Corporate Debtor can confer the status of secured financial debt

The **Kochi Bench of the National Company Law Tribunal (NCLT)** in the case of **Dileep K.P vs YES Bank [IA(IBC)/138/KOB/2026] dated June 08, 2026**, has held that under the insolvency process, only a security interest created over the assets of the Corporate Debtor can confer the status of secured financial debt. Where no such security interest exists in favour of the creditor over the assets of the Corporate Debtor, the debt cannot be treated as secured financial debt notwithstanding the existence of security over the personal assets of the promoters.

Once it is evident that the Corporate Debtor never created a security interest in favour of the creditor, such creditor cannot claim to be a secured creditor qua the Corporate Debtor during CIRP. Accordingly, the debt owed to Yes Bank could not be classified as secured financial debt merely on the basis of security provided by the promoters.

The Tribunal observed that the documents relied upon by Yes Bank, namely the Memorandum of Deposit of Title Deeds, were not executed by the Corporate Debtor but by another entity, Phoenix Cars India Pvt Ltd., and certain individuals in their personal capacities. It noted that under the Insolvency and Bankruptcy Code, 2016, secured financial debt refers to a financial debt backed by a valid security interest over the assets of the Corporate Debtor, created through mortgage, charge, hypothecation, pledge, or any other form of security interest executed by an agreement between the Corporate Debtor and the charge holder, whereas unsecured financial debt is not supported by such security interest.

The Tribunal further observed that although the distinction between secured and unsecured financial debt has limited relevance during CIRP for voting share in the CoC, as voting share depends on the quantum of admitted debt, the distinction becomes significant in insolvency and liquidation because secured creditors enjoy statutory privileges and options in relation to enforcement and distribution. Therefore, an erroneous classification as secured financial debt may adversely affect the rights and entitlements of other secured creditors.

The Tribunal also observed that Yes Bank claimed security only over the personal assets of the promoters of the Corporate Debtor and that no security interest had been created over the assets of the Corporate Debtor itself. It noted that a secured financial creditor is a financial creditor whose debt is secured by a charge on the assets of the corporate debtor, and that a charge is a security interest created by a company on its assets in favour of a lender to secure a debt. The Tribunal therefore held that financial institutions already holding security over the assets of the Corporate Debtor cannot be compelled to share their security interest and the benefits arising therefrom with Yes Bank merely because Yes Bank held security over promoters’ personal assets.