
SUPREME COURT ON EXTINGUISHING ARBITRATION AFTER CIRP: THE ELECTROSTEEL JUDGEMENT

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Arbitration and insolvency frequently clash in India's developing commercial legal system. The Insolvency and Bankruptcy Code, 2016 (IBC) focuses on collective recovery, time-bound resolution, and the principle of finality, whereas arbitration encourages party autonomy, decentralized dispute resolution, and contractual certainty. Due to the conflict between these two areas, courts are frequently compelled to balance the goals of insolvency resolution with the sanctity of arbitration agreements, which has resulted in a high volume of litigation. A significant advancement in this area is the recent ruling in *Electrosteel Steel Ltd. v. Ispat Carrier Ltd.* [1] (April 2025) by the Supreme Court. The Court ruled that all claims, including those that might otherwise be subject to arbitration, are extinguished once a resolution plan under the IBC is approved, and arbitration cannot be used to bypass or revive them.

Brief facts of the case

Disputes arose under a supply contract between Electrosteel Steel Ltd. (the appellant) and Ispat Carrier Pvt. Ltd. (the respondent). After nonpayment, Ispat initiated proceedings before the West Bengal MSME Facilitation Council under the MSME Act. When conciliation failed, and the matter proceeded to arbitration and CIRP was started against Electrosteel while the arbitration was still pending. Following the imposition of a moratorium under Section 14 of the IBC, the NCLT, Kolkata, authorized a resolution plan that Vedanta Ltd. had submitted. Ispat's claim was not acknowledged in the plan, and there was no appeal against its omission.

After the moratorium was lifted, the arbitration resumed unopposed and resulted in a favourable award to Ispat. Electrosteel did not challenge the award under Section 34 of the Arbitration Act but raised objections only at the stage of execution. Both the executing court and the Jharkhand High Court rejected its objections, leading to the appeal before the Supreme Court.

Legal reasoning of the court

The Court emphasized in its decision that resolution plans are legally binding under Section 31 of the IBC. It stated that a plan is legally binding on the corporate debtor, its members, employees, creditors (including operational creditors), and all other parties after it has been approved by the National Company Law Tribunal (NCLT). The Court also cited Section 238 of the IBC, which states that in the event of an inconsistency, the Code will take precedence over any other laws. These clauses led the Court to the conclusion that the finality and efficacy of the CIRP would be compromised if arbitration were permitted to continue with regard to claims that were or could have been addressed under the resolution plan. It made it clear that arbitration cannot be used as a parallel remedy following the resolution of insolvency by conclusion.

The Supreme Court's ruling in *Electrosteel* was based in large part on previous significant decisions such as *Essar Steel* [2], *Ghanshyam Mishra* [3], and *Ajay Kumar Goenka* [4]. In those cases, the Court clarified that the successful applicant places the business on a "clean slate" when a resolution plan is accepted, which means that all prior claims, whether filed, pending, or not even admitted stand extinguished unless they are part of the plan. This stance was reinforced by the *Electrosteel* ruling, which added a clear line: if the claim wasn't addressed in the resolution plan, the arbitral award is deemed legally void even if it is made after the moratorium begin.

Similar circumstances had previously arisen in the case of *Indian Oil v. Arcelor Mittal* [5], where Indian Oil attempted to use arbitration after the matter was settled on the basis of a significant pre-existing claim. However, the Delhi High Court dismissed it, arguing that it would undermine the IBC's finality and reopen previously resolved disputes. The Supreme Court eventually permitted arbitration in that case, but only because both parties consented, not because it didn't agree with the reasoning of the High Court. Therefore, when combined with these earlier decisions, *Electrosteel* clearly indicates that arbitration is effectively closed once a resolution plan is approved, unless the claim is successful within that plan.

Section 47 CPC: Execution Challenge Without Section 34

Whether *Electrosteel* was able to resist the arbitral award's enforcement even though they hadn't challenged it under Section 34 of the Arbitration Act was one of the main legal issues.

The Court determined that an arbitral award made on a claim that was extinguished by the resolution plan was void ab initio, citing Section 47 of the Civil Procedure Code, which permits objections to execution if the decree is a nullity. Therefore, even in the absence of an earlier challenge under arbitration law, it could be contested at the execution stage. This demonstrates that extinguishment under the IBC acts as a jurisdictional bar for arbitrators, meaning they are unable to decide a claim if it is no longer enforceable.

A Doctrinal Tension: Finality vs. Continuation

This brings up an intriguing doctrinal issue: the Court essentially extended the "clean slate" doctrine from insolvency to arbitration enforcement by treating an extinguished claim as a jurisdictional defect. Some would counter that this makes it harder to distinguish between jurisdiction and extinguishment. Furthermore, even though there was no prior challenge under Section 34 of the Arbitration Act, it permits the corporate debtor to contest the arbitral award during execution under Section 47 CPC.

The Supreme Court in *Electrosteel* reaffirmed that once a resolution plan is approved under the IBC, all excluded claims stand extinguished. By treating the award as a nullity, the Court framed this as a procedural objection, not a continuation of the claim, though this interpretation sits uneasily with the IBC's strict bar on post-resolution proceedings.

More importantly, the decision does not allow for many exceptions based on fairness. Ispat was refused enforcement merely because its claim wasn't included in the plan, even though it pursued arbitration in good faith and received an award. Whether the omission resulted from a lack of notice or procedural errors during CIRP was not taken into consideration by the Court. This method provides clarity for operational creditors, particularly MSMEs, but it may also result in injustice.

Comparative Perspective:

Internationally, jurisdictions have adopted a variety of approaches in balancing arbitration with insolvency. In Singapore, courts have sometimes allowed arbitration to continue if it does not interfere with the insolvency process. The UK adopts a similar stance, although courts are cautious when arbitration threatens creditor equality or delays resolution. In the United States, the Bankruptcy Code allows for a stay of arbitration in certain circumstances. The Indian

Supreme Court, through *Electrosteel*, appears to have adopted a stricter stance, clearly favouring the supremacy of insolvency law in this context.

Implications and critique

The *Electrosteel* decision has significant practical applications. Since post-resolution enforcement is no longer assured, arbitration clauses in business contracts may now need special provisions addressing insolvency. Even if they later receive a favorable award, operational creditors, particularly smaller entities, must take the initiative during CIRP to make sure their claims are made and accepted; otherwise, they run the risk of losing all of their remedies. By protecting resolution applicants from past disputes and reaffirming the process's finality, the ruling provides much-needed certainty. This clarity, though, could have a price: it makes it possible for applicants or resolution specialists to purposefully leave out contested claims because they are aware that they cannot be revived. The decision improves predictability, but it also calls into question the insolvency framework's fairness and balance.

Conclusion

To summarize, the *Electrosteel* ruling is a powerful reminder of the IBC's primary goal, which is to provide timely, collective, and final resolution of insolvency. It clarifies a murky area of the law that has long baffled courts and stakeholders alike, even as it limits the application of arbitration in the context of insolvency. It is still up for debate whether this clarity comes at too great a cost to arbitration rights, and it might lead to further judicial or legislative improvement. For the time being, the message is clear: after a resolution is reached, arbitration is out of the question, and arbitral awards made outside of the plan might not be upheld by execution courts under Section 47 CPC.

References:

[1] Electrosteel Steel Limited v. Ispat Carrier Private Limited, 2025 INSC 525.

[2] Essar Steel India Ltd. v. Satish Kumar Gupta, (2020) 8 SCC 531.

[3] Ghanshyam Mishra and Sons Pvt. Ltd. v. Edelweiss Asset Reconstruction Company Ltd., (2021) 9 SCC 657.

[4] Ajay Kumar Radhesyam Goenka v. Tourism Finance Corporation India Ltd., (2023) 10 SCC 545.

[5] Indian Oil Corporation Limited v. Arcelor Mittal Nippon Steel India Limited, (2023) SCC OnLine Del 6318.