14.08.2026

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SA No.299 of 2026 is allowed vide separate order.

Presiding Officer

IN THE DEBTS RECOVERY TRIBUNAL - 1, KARNATAKA
AT BENGALURU

PRESENT: SRI IMTIAZ ALI
PRESIDING OFFICER

Dated the 14th day of August, 2026

SECURITISATION APPLICATION NO.299 OF 2026

Between

Dr Hegde Nanoculum Inc,
A Partnership Firm,
Having its registered office at
No.47, 2nd Cross, P & T Colony,
R T Nagar, Bengaluru-560032,
Represented by its Managing Partner
Dr. Nagaraja Hedge. .... Applicant

And

The Authorised Officer,
Karnataka Bank,
Asset Recovery Management Branch,
First Floor, FKCCI Building,
Kempegowda Road,
Bengaluru-560009. .... Defendant

This Securitisation Application having been heard on 17.07.2026 in the presence of Advocates M/s M Mohamed Ibrahim, Mohamed Ismail and Ehtesham Ibrahim for the applicant, and Advocate Sri Nithin Chandra M & Associates for the defendant and stood over to this day for consideration, the Tribunal delivered the following: -

FINAL ORDER

The applicant filed the above Securitisation Application (SA) on 04.05.2026 under S.17(1) of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 as amended from time to time – hereinafter referred to as 'the Act' – praying to set aside the sale notice dated 23.04.2026 issued under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 r/w the Rule 8(6) and 9(1) of the Security Interest

(Enforcement) Rule, 2002 by the authorised officer of the defendant proposing the sale of the schedule immovable properties on 15.05.2026 as against the reserve price of ₹5.20 crores for item No.1 of the schedule property and ₹6.10 crores for the item No.2 of the schedule property. The applicant is none other than the borrower of a financial assistance availed from the defendant.

2. The case set out by the applicant in the SA in brief is as follows: - The defendant bank has not neither served the demand notice nor served the possession notice upon the applicant. The defendant bank has not published the possession notice in two leading newspapers which is having sufficient circulation and also the possession notice was never affixed on the application schedule properties. Now, the defendant bank issued a sale notice dated 23.04.2026 fixing the reserve price of the schedule immovable property of item No.1 at ₹5,20,00,000/- and item No.2 at ₹6,10,00,000/- proposing the sale of the same on 15.05.2026 for recovery of the sum of ₹5,79,30,394/- and whereas the actual property value is ₹6,50,00,000/- for the item No.1 and ₹8,50,00,000/- for the item No.2 of the schedule properties. The said sale notice dated 23.04.2026 does not contain the east to west and north to south measurement of the schedule properties. The valuation of the schedule properties has been intentionally kept much below the market price to enable the defendant bank to sell the schedule properties to its identified purchaser. Further the applicant submits that the first charge of the schedule property being item No.2 of the impugned sale notice lies with Karnataka Industrial Areas Development Board and therefore the applicant holds only second charge over the lease hold rights under the lease cum sale agreement. The applicant further submits that the demand notice is issued totally against the RBI guidelines. The loan of the borrower coming under the classification of MSME unit. Before declaring the loan account of an MSME unit a detailed procedure ought to have been followed by the defendant bank in terms of RBI

guidelines and MSMED Act. On the above grounds, the applicant prayed for setting aside the sale notice dated 23.04.2026.

3. The defendant filed a statement of objection refuting the prayer and contending as follows: - The applicant and his guarantors have approached the defendant bank for financial assistance for meeting the working capital requirements of their business. The defendant bank has registered with Central Registry. The applicant and guarantors have failed to repay the loan amount in the aforesaid loan accounts and account became non-performing asset on 25.08.2024. Thereafter, the authorised officer of the defendant issued a demand notice dated 05.12.2024 under S.13(2) of the Act to the applicant calling upon them to pay the outstanding dues. As the applicant failed to discharge the debt due, the authorised officer of the defendant issued a possession notice dated 27.02.2025 under S.13(4) of the Act with respect to item No.1 of the schedule property and 03.03.2025 with respect to item No.2 of the schedule property. Photos were affixed on the conspicuous part of the mortgage asset apart from publishing the same within 7 days from the date of taking symbolic possession. Further, the authorised officer of the defendant issued sale notice dated 23.06.2025 for sale of the schedule immovable properties and applicant challenged the same before this Tribunal in SA No.345/2025. The auction scheduled on 30.07.2025 failed for want of bidders, therefore the aforesaid SA was dismissed as infructuous. The defendant bank specifically stated as 'lease hold rights' in the respective schedule portion of the aforesaid demand notice, possession notice and the sale notice. Reserve price has been fixed strictly as per Rule 8(5) of the Security Interest (Enforcement) Rules, 2002 and also fixed after obtaining the valuation report from the valuer and approved by the board of Directors of the defendant bank. The applicant could have exercised their right of redemption before publication of sale notice dated 23.04.2026 as per Section 13(8) of the SARFAESI Act, 2002. Thereafter, the

authorised officer of the defendant issued second sale notice dated 23.04.2026 for sale of the schedule immovable properties which was duly served on the applicant and guarantors. The auction scheduled on 15.05.2026 with respect of sale notice dated 23.04.2026 and also failed for want of bidders. Thus, the present Securitisation Application becomes infructuous. On the above contentions, the defendant prayed for dismissal of the SA with costs.

4. The applicant produced four documents along with the SA, which are for convenience referred to as Annexures A1 to A4. The defendant along with its statement of objection produced forty-one documents in support of his contentions and the same are referred to as Annexures R1 to R41. Thereafter, the defendant filed additional statement of objection along with additional four documents in support of his contentions and the same are referred to as Annexures R42 to R45.

5. The only issue arises for consideration is as to whether the applicant is entitled to the relief prayed for?

6. <u>The Issue</u>- The applicant has instituted the present Securitisation Application under Section 17 of the SARFAESI Act challenging the entire SARFAESI proceedings initiated by the defendant bank, including the demand notice dated 05.12.2024 issued under Section 13(2), the possession notice dated 27.02.1015 issued Section 13(4), and the sale notice dated 23.04.2026, seeking a declaration that the said proceedings are illegal, arbitrary and liable to be set aside.

7. The principal contention of the applicant is that it is a Micro, Small and Medium Enterprise (MSME) and the defendant bank declared the loan account as Non-performing asset (NPA) without complying with the RBI framework for Revival and Rehabilitation of MSMEs. The applicant has produced the Udyam Registration Certificate in support of its MSME status. It is further contended that no steps were taken

by the defendant bank for revival and rehabilitation of the loan account before classifying it as NPA. The applicant has also challenged the proceedings on the grounds that the defendant bank failed to register its security interest with CERSAI in respect of item No.2 of the schedule property situated at Mysore Taluk, that the demand notice was not duly served, that the possession notice was neither served nor affixed nor published in accordance with the Security Interest (Enforcement) Rules, 2002, and that the consequential sale proceedings are liable to be set aside.

8. The defendant bank has opposed the application contending that the applicant committed persistent defaults in repayment of the loan and servicing of interest and therefore, the account was classified as NPA on 25.08.2024 with effect from 22.01.2021. It is submitted that the applicant did not earlier claim the benefit of the MSME framework and cannot now be permitted to raise such a plea. The bank further contends that it possesses a valid security interest over item No.2 of the schedule property as a second charge holder under the lease-cum-sale agreement dated 17.05.2018 and has produced CERSAI reports marked as Annexures R-19 and R-20. The bank has also produced the demand notice dated 05.12.2024 along with postal receipts, acknowledgment cards and postal tracking reports, besides the possession notices dated 27.02.2025 and 03.03.2025, photographs and newspaper publications to establish compliance with the statutory requirements. In so far as the sale notice dated 23.04.2026 is concerned, the bank submits that the auction did not culminate in a sale for want of bidders. The defendant has relied upon the judgments of the Hon'ble Supreme Court in WP.(c) No.684 of 2025 and the judgment of the Hon'ble High Court of Kerala in W.A. No.1728 of 2024. The applicant, on the other hand has relied upon the judgments reported in (2024) 10 SCC 292, (2012) 11 SCC 511 and the judgment of the Hon'ble High Court of Karnataka in W. P. No.30511 of 2025.

9. Having heard the learned Counsel for both sides and upon perusal of the pleadings and documents, the following points arise for consideration: -

(i) Whether the defendant bank complied with the RBI framework for Revival and Rehabilitation of MSMEs before classifying the applicant's account as NPA?

a) The applicant has produced the Udyam Registration Certificate as Annexure-A4 evidencing that it is an MSME unit. The defendant bank has not disputed the said registration. The stand of the bank itself is that the account was classified as NPA on 25.08.2024 with retrospective effect from 22.10.2021, which clearly demonstrates that the account had remained under financial stress for a considerable period before its classification as NPA.

b) The material placed on record does not disclose that the defendant bank identified the account as a stressed MSME account, considered any Corrective Action Plan, or undertook any exercise for revival or rehabilitation under the applicable RBI framework before classifying the account as NPA. Instead, the Bank proceeded directly to invoke the SARFAESI Act.

c) The contention that the applicant had not earlier claimed the benefit of the MSME framework cannot absolve the defendant bank of its obligation to comply with the applicable regulatory framework where the borrower is an eligible MSME. The judgments relied upon by the defendant bank do not dispense with such obligation. On the contrary, the principles emerging from the judgments relied upon by the applicant reinforce that statutory and binding regulatory requirements must be complied with before resorting to coercive measures.

d) Accordingly, this Tribunal holds that the defendant bank failed to comply with the applicable RBI framework for Revival and Rehabilitation of MSMEs before classifying the applicant's account as NPA, thereby vitiating the very foundation of the SARFAESI proceedings.

(ii) Whether the defendant bank established valid CERSAI registration in respect of item No.2 of the schedule property?

a) The applicant has contended that item No.2 of the schedule property is governed by a lease-cum-sale agreement dated 17.05.2018, the first charge is with KIADB, and the defendant bank has not registered its security interest with CERSAI.

b) The defendant bank has relied upon Annexures R-19 and R-20. However, a careful perusal of the said documents reveals that the CERSAI registration pertains to a property situated at Bengaluru, whereas item No.2 of the secured asset involved in the present proceedings is situated at Mysore Taluk. No document evidencing CERSAI registration in respect of the Mysore property has been produced.

c) Consequently, the defendant bank has failed to establish valid CERSAI registration of its security interest over item No.2 of the schedule property. The SARFAESI measures in respect of the said property are, therefore, unsustainable.

(iii) Whether the demand notice was duly served?

a) The defendant bank has produced the demand notice along with postal receipts, acknowledgment cards and postal tracking reports. Though the acknowledgment cards do not disclose the identity of the signatory and some of the postal receipts are not clearly legible, the postal tracking reports issued by the postal department indicate delivery of the postal articles.

b) In absence of any material rebutting the official postal tracking reports, this Tribunal is satisfied that the defendant bank has substantially established service of the demand notice. Accordingly, the challenge to the demand notice on the ground of non-service alone cannot be accepted.

c) However, on the facts, the demand notice is liable to be set aside. The reason is not that it was not served but because the very classification of the account as NPA is vitiated due to bank's failure to follow the RBI framework for Revival and Rehabilitation of MSMEs. If the NPA classification is invalid, the demand notice issued under Section 13(2) which is founded on that NPA classification, cannot survive.

(iv) Whether the possession notice was served, affixed and published in accordance with law?

a) The defendant bank has produced the possession notice, postal receipts, photographs and newspaper publications. However, some of the postal receipts are unreadable. The photographs relied upon by the bank do not establish actual affixure of the possession notice on the secured asset. In one photograph, a person merely seen holding a piece of paper and the act of affixure cannot be discerned. Likewise, the newspaper publication produced is illegible, and neither its contents nor the date of publication can be verified.

b) The defendant bank has thus failed to establish compliance with the mandatory requirements under Rule 8 of the Security Interest (Enforcement) Rules, 2002 relating to service, affixure and publication of the possession notice and all consequential measures are liable to be set aside.

(v) Sale notice: -

a) In so far the sale notice is concerned, the defendant bank has categorically stated that the auction did not take place for want bidders and no sale certificate has been issued. Therefore, no third-party rights have come into existence. The challenge to the sale notice has, therefore, become infructuous. Nevertheless, since the foundational SARFAESI measures have been held unsustainable, the defendant bank cannot proceed further on the basis of the impugned sale notice.

RESULT

10. For the reasons stated above, this Tribunal holds that: -

1. The defendant bank failed to comply with the applicable RBI framework for Revival and Rehabilitation of MSMEs before classifying the applicant's account as NPA.
2. The defendant bank failed to establish valid CERSAI registration in respect of item No.2 of the schedule property situated at Mysore Taluk.
3. The defendant bank has established service of the demand notice. But because of very classification of the account as NPA is vitiated due to bank's failure to follow the RBI framework for Revival and Rehabilitation of MSMEs, the demand notice cannot survive.
4. The defendant bank has failed to establish compliance with the mandatory requirements regarding service, affixure and publication of the possession notice under Rule 8 of the Security Interest (Enforcement) Rules, 2002.
5. The sale notice did not culminate in any sale and has become infructuous.

11. Accordingly, the Securitisation Application No.299 of 2026 is allowed. The classification of the applicant's loan account as non-performing asset (NPA), the demand notice dated 05.12.2024 issued under Section 13(2) of the SARFAESI Act, the possession notices dated 27.02.2025 and 03.03.2025 issued under Section 13(4) of the SARFAESI Act and all consequential measures initiated by the defendant bank pursuant thereto are hereby set aside.

12. The defendant bank is, however, at liberty to classify the account as NPA afresh, if warranted, and thereafter initiate proceedings under the SARFAESI Act only after complying with the applicable RBI framework for Revival and Rehabilitation of

MSMEs, the provisions of the SARFAESI Act, the Security Interest (Enforcement) Rules, 2002, and other statutory requirements.

13. The sale notice dated 23.04.2026 which is admittedly did not culminate in any sale for want of bidders, also cannot survive once the foundational measures have been set aside.

14. The defendant bank shall not debit or recover from the applicant's loan account any expenses, charges or costs incurred towards the impugned SARFAESI proceedings, including the expenses relating to the demand notice, possession proceedings, publication, valuation, auction or other enforcement measures taken by/undertaken pursuant to the impugned proceedings, which have been set aside by this Tribunal. If any such amount has already been debited to the applicant's loan account, the defendant bank shall reverse the same within one month and furnish statement of account to the applicant.

15. The schedule to the SA shall appended to this final order.

16. Communicate copy of this final order to both parties as provided in sub-section (7) of S.17 of the Act r/w R.16 of the Debs Recovery Tribunal (Procedure) Rules, 1993 (as amended from time to time).

[Dictated to my L R directly on the computer, corrected and pronounced by me in the open Tribunal on this the 14th day of August, 2026]

[IMTIAZ ALI]
PRESIDING OFFICER

APPENDIX

Applicant's Exhibits

Annexure A1	23.04.2026	Public auction sale notice
Annexure A2	17.05.2018	Photocopy of lease cum sale agreement
Annexure A3		Photocopy of the order in Securitisation Application 345 of 2025
Annexure A4		Photocopy of the MSME Udyam Registration certificate

Defendant's Exhibits

Annexure R1	30.08.2021	True copy of credit sanction intimation bearing Ref. No. DGMS/CS-ME/001/11169/2021-22 of Term loan account bearing PS-TL A/c No.1207001800031901.
Annexure R2	14.07.2025	True copy of credit sanction intimation bearing Ref no. DGMS/RLPC/950/16518/2020-21 of Term Loan account bearing PS-TL A/c No.120700180034701.
Annexure R3	30.08.2021	True copy of credit sanction intimation bearing Ref. no. DGMS/CS-ME/001/11169/2021-22 of Term loan account bearing PS TL A/c No.1207001800035401.
Annexure R4	30.08.2021	True copy of credit sanction intimation bearing Ref. no. DGMS/CS-ME/001/11169/2021-22 of Term loan account bearing PS TL A/c No. 1207001800035501.
Annexure R5	22.10.2021	True Copy of the Term Loan Agreement w.r.t Term loan account bearing PS TL A/c No.1207001800031901.
Annexure R6	28.10.2020	True Copy of the Term Loan Agreement w.r.t Term loan account bearing PS TL A/c No.1207001800034701.
Annexure R7	22.10.2021	True Copy of the Term Loan Agreement w.r.t Term loan account bearing PS TL A/c No.1207001800035401.
Annexure R8	22.10.2021	True Copy of the Term Loan Agreement w.r.t Term loan account bearing PS TL A/C No.1207001800035501.
Annexure R9	26.09.2018	True Copy of the Registered Memorandum of Deposit of Title Deeds w.r.t Item No.1 of the Schedule Property.
Annexure R10	28.10.2020	True copy of the Registered Interse Re- Deposit of Title Deeds/Letter of Authority w.r.t Item No.1 of the Schedule Property.
Annexure R11	22.10.2021	True copy of the Registered Interse Re- Deposit of Title Deeds/Letter of Authority w.r.t Item No.1 of the Schedule Property.
Annexure R12	19.04.2010	True Copy of the Registered Memorandum of Deposit of Title Deeds w.r.t Item No.2 of the Schedule Property.
Annexure R13	28.10.2020	True copy of the Registered Interse Re- Deposit of Title Deeds/Letter of Authority w.r.t Item No.2 of the Schedule Property.
Annexure R14	22.10.2021	True copy of the Registered Interse Re- Deposit of Title Deeds/Letter of Deeds w.r.t Item No.2 of the Schedule Property.
Annexure R15		True Copy of the Acknowledgement of Debt - Term loan account bearing PSTL A/c No. 1207001800031901.

Annexure R16		True Copy of the Acknowledgement of Debt-Term loan account bearing PS TL A/c No. 1207001800034701.
Annexure R17		True Copy of the Acknowledgement of Debt -Term loan account bearing PS TL A/c No. 1207001800035401.
Annexure R18		True Copy of the Acknowledgement of Debt - Term loan account bearing PS TL A/c No. 1207001800035501.
Annexure R19		CERSAI Search Details bearing Asset ID No. 100001285895 w.r.t Item No.1 of the SA Schedule Property.
Annexure R20		CERSAI Search Details bearing Asset ID No. 40024592022 w.r.t Item No.2 of the SA Schedule Property.
Annexure R21	05.12.2024	Demand Notice the Postal Receipts and acknowledgement card/Online Tracking (6 No's) of the applicant and the Guarantors as proof of effective service of Demand Notice.
Annexure R22, 23 & 24	27.02.2025	True copy of the Possession Notice w.r.t the Item No.1 of the SA Schedule Property along with respective Postal receipts (6 in No's), Postal acknowledgment cards, Photographs and the true copies of the respective paper publication's.
Annexure R25, 26 & 27	03.03.2025	True copy of the Possession Notice w.r.t the Item No.2 of the SA Schedule Property along with respective Postal receipts (6 in No's), Postal acknowledgment cards, Photographs and the true copies of the respective paper publication's.
Annexure R28	23.06.2025	True copy of the First Sale Notice
Annexure R29	10.02.2026	Online downloaded copy of the Order passed by this Tribunal
Annexure R30		True & Certified Copy of the Statement of Account Extract/s in PS - TL A/c No.1207001800031901.
Annexure R31		True & Certified Copy of the Statement of Account Extract/s in PS - TL A/c No.1207001800034701.
Annexure R32		True & Certified Copy of the Statement of Account Extract/s in PS - TL A/c No. 1207001800035401.
Annexure R33		True & Certified Copy of the Statement of Account Extract/s in PS - TL A/c No. 1207001800035501.
Annexure R34	01.03.2025	Valuation Report w.r.t Item No.1 of the SA Schedule Property.
Annexure R35		Approval Under Sec 34 AB of the Wealth Tax Act-1957.
Annexure R36	30.08.2013	Circular bearing Ref. Circular L&R /Letter/GF15(A)/7/6089/2013-14 issued by the Bank
Annexure R37		Extract of the prevailing gazette notification issued by Government of Karnataka w.r.t Item No.1 of the SA Schedule Property.
Annexure R38	30.04.2025	Valuation Report W.r.t Item No.2 of the schedule property.
Annexure R39		Approval Under Sec 34 AB of the Wealth Tax Act-1957.
Annexure R40	27.09.2019	Circular bearing Ref. L&R/Circular Letter/GF15(A):04:2019-2020 issued by the bank.
Annexure R41		Extract of the prevailing Gazette notification issued by the Government of Karnataka w.r.t. item No.2 of the

	Securitisation Application schedule property.
Annexure R42	Copy of the Memorandum of Appeal under Sec 17(1) of SARFAESI ACT, 2002 in SA No. 345/2025.
Annexure R43	Online downloaded copy of the Order in SA No. 345/2025.
Annexure R44	Memorandum of and Writ Petition bearing W.P.No. 7555/2026 disposed on the file of Hon'ble High Court of Karnataka, at Bengaluru.
Annexure R45	Online downloaded copy of the Order in Writ Petition bearing W.P. No. 7555/2026 disposed on the file of Hon'ble High Court of Karnataka, at Bengaluru.

14.08.26

PRESIDING OFFICER

SCHEDULE PROPERTIES

Item No.1-All that piece and parcel of the Residential property No. 47, measuring 2400 square feet, situated at Bruhat Bengaluru Mahanagara Palike, Ward No. 97 & PID No. 97-5-47, P & T Colony, Gangenahalli, Bengaluru North Taluk, Bengluru-560032 together with building constructed thereon and bounded on the East by: 30 feet road, West by: Site No. 20/Private Property, North by: Site No. 48 and South by: Site No. 46;

Item No. 2-All that piece and parcel of the Industrial property bearing Survey No. 28, measuring 3.19 Acre, situated at Pura Village, Belagola Hobli, Mysore Taluk, with building thereon (Leasehold rights) and bounded on the East by: Road, West by: Land bearing Survey No. 29, North by: Land bearing Survey No. 27 and South by: Old Nala Road;

14.08.26.

PRESIDING OFFICER

IN THE DEBTS RECOVERY TRIBUNAL - 1,
KARNATAKA AT BENGALURU

PRESENT: SRI IMTIAZ ALI
PRESIDING OFFICER

Dated the 14th day of August, 2026

SECURITISATION APPLICATION NO.299 OF 2026

Between
Dr Hegde Nanoculum Inc,
A Partnership Firm,
Having its registered office at
No.47, 2nd Cross, P & T Colony,
R T Nagar, Bengaluru-560032,
Represented by its Managing Partner
Dr. Nagaraja Hedge. ....Applicant

And
The Authorised Officer,
Karnataka Bank,
Asset Recovery Management Branch,
First Floor, FKCCI Building,
Kempegowda Road,
Bengaluru-560009. ....Defendant

FINAL ORDER

14.08.26.