

# BEST ANSWER - CASE STUDY - AUGUST, 2025

## Case Summary:

The appellants (MSME suppliers) filed a case before the **MSME Facilitation Council** for delayed payments. The Council passed an award in their favour on **28.01.2010**. The respondents challenged the award under **Section 34 of the Arbitration and Conciliation Act, 1996 (ACA)**. The **Commercial Court** set aside the award stating the claim was **time-barred**. The **High Court upheld this decision**, leading to the present appeal.

**Issue 1: Whether the Limitation Act applies to conciliation proceedings under Section 18 of the MSMED Act, and even if not, whether time-barred debts can be referred to conciliation?**

## Finding:

The **Limitation Act does not strictly apply to conciliation under Section 18(2) of the MSMED Act**, since it is a **voluntary settlement process**. However, time-barred claims can be discussed only if the **debtor acknowledges the debt in writing**. Thus, conciliation can cover time-barred claims only if they are revived by mutual agreement.

## Law & Case:

- **Section 25(3), Indian Contract Act, 1872:** Time-barred debt is enforceable if there is a written promise to pay.
- **Shakti Bhog Foods Ltd. v. Central Bank of India**, (2020) 17 SCC 260 – Conciliation is informal; limitation rules do not strictly apply.
- **State of Kerala v. V.R. Kallianikutty**, (1999) 3 SCC 657 – Statutory remedies are subject to limitation unless acknowledged.

**Issue 2: Whether the Limitation Act applies to arbitration proceedings under Section 18 of the MSMED Act, and whether time-barred debts can be referred to arbitration?**

## Finding:

Yes. **Limitation Act applies to arbitration under Section 18(3) of MSMED Act, via Section 43 of the ACA**. Since MSMED Act does not give its own time limit, the **general Limitation Act applies**. Therefore, time-barred claims cannot be referred to arbitration unless validly acknowledged under Section 18 of the Limitation Act, 1963.

## Law & Case:

- **Section 43, ACA:** Limitation Act applies to arbitrations like it does to court cases.
- **Paper Products Ltd. v. U.P. Power Corp. Ltd.**, 2024 SCC Online SC 321 – Supreme Court held that MSMED arbitrations follow Limitation Act.
- **Andhra Pradesh Power Coordination Committee v. Lanco Kondapalli Power Ltd.**, (2016) 3 SCC 468 – Arbitration proceedings are governed by the Limitation Act unless expressly excluded.

**Issue 3: What is the effect of disclosure of the unpaid amount in the buyer's financial statements as mandated under Section 22 on extending the limitation period?**

## Finding:

Yes, Disclosure of unpaid dues in a buyer's financial statements **can amount to acknowledgment of debt** under Section 18 of the Limitation Act, provided it is made **before expiry of the limitation period**. If such disclosure is made after limitation expires, **it does not revive** the claim.

## Law & Case:

- **Section 18, Limitation Act:** Written acknowledgment before expiry extends limitation.
- **Mahabir Cold Storage v. CIT**, (1991) 1 SCC 402 – Balance sheet entries can be treated as valid acknowledgment of debt.
- **South Asia Industries Pvt. Ltd. v. S.B. Sarup Singh**, AIR 1966 SC 346 – Balance sheet entries may amount to valid acknowledgment if explicit.

## Conclusion:

- Limitation Act does not apply strictly to conciliation, but time-barred claims need acknowledgment to be enforceable.
- Limitation Act applies to arbitration under MSMED. Time-barred claims without acknowledgment are not maintainable.
- Financial disclosures in buyer's accounts may extend limitation if made within time.

Therefore, the **High Court's order setting aside the award on limitation grounds is legally justified** only in case of arbitration unless there is proof of acknowledgment by the buyer.