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CASE LAW UPDATES

Case Brief: Pooja Ramesh Singh v. Jammu and Kashmir Bank Ltd. & Anr.

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The case of ***Pooja Ramesh Singh v. Jammu and Kashmir Bank Ltd. & Anr.*** seamlessly bridges traditional corporate insolvency law with modern digital jurisprudence. While fundamentally rooted in a Section 7 IBC guarantor dispute, this historic decision is globally significant for establishing the "Human-in-the-Loop" imperative to protect the rule of law from unverified AI research tools.

- Citation: 2026 INSC 668 | 2026 LiveLaw (SC) 653
- Court: Supreme Court of India
- Date of Judgment: July 2, 2026
- Bench: Justice P.S. Narasimha and Justice Alok Aradhe
- Area of Law: Insolvency and Bankruptcy Law; Judicial Process & Digital Jurisprudence

Facts of the Case

- The Credit Facility: Jammu and Kashmir Bank Ltd. (the Respondent) extended a financial credit facility worth ₹200 crore to an associate company of Essel Infraprojects Ltd. (EIL). EIL stood as a corporate guarantor to secure this credit facility.
- The Default: The principal borrower defaulted on the loan repayments. Consequently, J&K Bank invoked the corporate guarantee against EIL, claiming an outstanding default amount of approximately ₹87.43 crore.
- The Corporate Insolvency Resolution Process (CIRP): The bank filed an application under <u>Section 7 of the Insolvency and Bankruptcy Code, 2016 (IBC) before

the National Company Law Tribunal (NCLT), Mumbai, seeking to initiate CIRP against EIL.</u>

- The Challenge: Pooja Ramesh Singh (the Petitioner), a suspended director of EIL, contested the Section 7 application. She argued that a subsequent corporate debt restructuring process had altered the original terms, thereby discharging EIL from its liabilities as a guarantor.
- The Lower Tribunal Rulings: On August 28, 2024, the NCLT Mumbai admitted the insolvency petition against EIL. The Petitioner appealed this admission before the National Company Law Appellate Tribunal (NCLAT).

On September 11, 2025, the NCLAT dismissed the appeal and upheld the NCLT's order.

- The Discovery of AI Fabrication: Upon reaching the Supreme Court, an independent evaluation of the NCLT's written order revealed a shocking anomaly.

The NCLT had extensively anchored its legal reasoning on ***six "precedents"- complete with fabricated legal citations, fake case names, and fictional paragraphs - which did not exist in any law journal or database.***

Issues Raised

1. Procedural Issue: Whether a judicial or quasi-judicial order can be sustained in law if it relies on completely fictitious, non-existent, and AI-hallucinated legal precedents.
2. Insolvency Issue: Whether the corporate restructuring process had legally discharged Essel Infraprojects Ltd. from its obligations as a corporate guarantor under Section 7 of the IBC.
3. Institutional Issue: What are the legal liabilities, ethical parameters, and systemic safeguards required when judges and advocates deploy Artificial Intelligence (AI) tools in legal research and adjudication?

Arguments by the Petitioner

- Subversion of Due Process: The Petitioner argued that the NCLT’s reliance on fake, non-existent case laws stripped the judgment of any legal standing. A decision built on hallucinations violates the fundamental right to a fair trial and the principles of natural justice.

- Lack of Independent Judicial Mind: It was contended that the NCLT did not independently apply its mind to the facts or the actual statutory provisions of the IBC, choosing instead to outsource its cognitive, judicial functions to an unverified machine algorithm.
- Discharge of Guarantor: On the merits of the insolvency case, the Petitioner maintained that the corporate restructuring mechanism effectively absolved EIL of its guarantor status, rendering the Section 7 admission legally flawed.

Arguments by the Respondent (Jammu and Kashmir Bank Ltd.)

- No Bad Faith by Counsel: The Respondent Bank filed a detailed affidavit clarifying that its legal counsel had not cited or relied upon any of the six fake precedents during oral or written arguments before the NCLT.
- Unintentional Judicial Error: The Respondent asserted that the hallucinated precedents were the result of the NCLT's "own research" conducted via an unverified generative AI tool.
- Valid Debt and Default: The Bank argued that notwithstanding the procedural flaw regarding the citations, the underlying debt, default, and corporate guarantee by EIL were concrete factual realities.

Therefore, the admission of the *insolvency petition under Section 7 of the IBC was justified on its independent factual merits.*

Analysis by the Court

- The Concept of Algorithmic Contamination: The Supreme Court analyzed how generative AI models produce "hallucinations"- convincing but completely fabricated pieces of data.

The Court noted that the NCLT had used an unverified AI research tool and incorporated its hallucinated outputs blindly into a binding judicial order.

- Failure of the Appellate Review: The Apex Court expressed deep concern that the NCLAT, while acting as a statutory court of appeal, failed to spot these fictional cases, highlighting a serious breakdown in the institutional review process.
- The Non-Negotiable Standard of Adjudication: The Court observed that the introduction of fake material into a judicial order compromises the entire purity of the legal process. Even if the factual core of a debt exists, a judge cannot deliver a verdict using simulated, imaginary rules of law.
- Human-in-the-Loop Imperative: The Court emphasized that while technology can assist in administrative efficiency and legal sorting, it cannot replace human cognitive analysis, ethical filtering, and strict manual verification.

Judgment

- Orders Quashed: The Supreme Court set aside both the NCLT admission order (August 2024) and the NCLAT appellate order (September 2025).
- Restoration & De Novo Hearing: The Court restored J&K Bank’s Section 7 insolvency application back to the NCLT Mumbai bench.

It ordered the NCLT to conduct a fresh, ***de novo*** hearing strictly on the true factual merits and genuine legal precedents of the case.

- Institutional Mandate to the BCI: The Court directed the Bar Council of India (BCI) to immediately establish a high-level committee to draft regulatory rules and guidelines governing the use of AI tools by legal practitioners and judicial officers.

Citing unverified AI material was declared an act of professional misconduct.

Ratio Decidendi

A judicial or quasi-judicial decision rooted in fake, nonexistent, or AI-hallucinated precedents is void, invalid, and lacks any legal existence ("no decision in the eyes of the law").

The inclusion of even an "iota" of fabricated material subverts the rule of law, requiring the total quashing of the order, regardless of the underlying factual merits.