



ARBITRATION AND CONCILIATION

CIVIL

Judicial Intervention in Corporate Affairs: High Court Clarifies Scope of Interim Injunctions

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Introduction

The Delhi High Court has delivered a significant judgment concerning corporate governance and the scope of judicial intervention in a company's internal affairs. In a recent ruling, the court set aside an interim injunction that had prevented Drharors Aesthetics Private Ltd. from convening board and general meetings to consider the removal of two directors. The decision clarifies the limited nature of the power to grant interim relief under Section 9 of the Arbitration and Conciliation Act, 1996, and highlights the principle that courts should not unduly interfere with the statutory rights of a company to manage its own affairs. This judgment is a crucial reminder of the importance of balancing a director's right to be heard with a company's need to function and address serious governance issues expeditiously.

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Background of the Case

The dispute arose from a business relationship between Drharors Aesthetics Private Ltd. (the "Appellant Company"), which is engaged in dermatological and aesthetic services, and Debulal Banerjee^[1] and Rahul Shawel^[2] ("the Respondents" in connected matter), who were erstwhile directors. The parties had entered into a Memorandum of Understanding on September 23, 2023, to form a new entity to expand the business. The Respondents were given specific responsibilities, including growth, franchise development, marketing, and day-to-day operations. Subsequently, the Respondents were appointed as directors through an Executive Employment Agreement dated October 19, 2023, entitling him to monthly remuneration and certain shareholding rights, as further detailed in a Shareholders Agreement on November 8, 2023.

The Respondents claimed their efforts led to significant business expansion in a short period. However, in March 2025, several disputes emerged. The Respondents alleged they were suddenly denied access to official email systems, their salaries were withheld, and they received short notice communications for Board Meetings to discuss their proposed removal. Despite repeated requests, the Respondents were not given any documents to support the allegations of financial irregularities or operational mismanagement against them. They argued that these actions were arbitrary and a breach of their contractual and statutory protections.

The Respondent further alleged that he had not been served with adequate notice under Section 173(3) of the Companies Act, 2013, which mandates a minimum of seven days written notice for convening Board Meetings. It was specifically contended that the meetings dated 01.04.2025, 04.04.2025, 15.04.2025 and 12.05.2025 were either held or proposed to be held on insufficient notice, thereby violating statutory mandates and depriving the Respondent of a fair opportunity to respond.

The Appellant Company conversely, contended that the proposed removal was necessary due to serious financial irregularities, a breach of fiduciary duties, and acts of sabotage by the Respondents. The company argued that the notices were issued in accordance with the Companies Act, 2013, and its Articles of Association, and that the Respondents were obstructing the company's lawful operations by seeking an injunction. The company also claimed the Respondents actions, such as refusing to hold meetings and withholding access to internal audits, had "paralyzed" the company's functioning.

Legal Reasoning and Judicial Rationale

The High Court of Delhi's decision was based on a firm rejection of the District Judge's rationale and a strong affirmation of established corporate law principles. The court found that the interim injunction was legally flawed for several key reasons:

- **Judicial Overreach and Statutory Rights:** The court emphasized that the right to convene and hold meetings, including for the removal of a director under **Section 169** of the Companies Act, is a statutory power held by a company's shareholders and board. Citing the Supreme Court case of **Life Insurance Corporation of India v. Escorts Ltd.**^[3], the High Court held that

judicial interference in such internal governance matters should be minimal. An injunction effectively restraining these meetings amounts to an unwarranted interference with a company's lawful functioning. The court noted that the proper remedy for a director is to challenge the outcome of such a meeting, not to pre-emptively restrain its convening.

- **Misapplication of Law:** The District Judge had incorrectly relied on the case of **Chhaya Devi & Anr. v. Rukmini Devi & Ors.** [4] to justify the injunction. The High Court pointed out that this specific judgment had been expressly set aside by a Division Bench in the case of **Jai Kumar Arya & Ors. v. Chhaya Devi & Anr.** The precedent established in **Jai Kumar Arya** and affirmed in **Ravinder Sabharwal and Another v. XAD Inc. and Others**[5], is that an injunction preventing an EGM from being held is impermissible, even if the director claims they were not given a chance to be heard. The opportunity for a hearing can be provided at the EGM itself.
- **Scope of Interim Relief:** The court highlighted that interim relief under **Section 9** of the **Arbitration and Conciliation Act, 1996**, is an equitable and discretionary remedy, meant primarily to preserve the subject matter of the arbitration or prevent its frustration. The injunction granted by the District Judge, however, was deemed to be a final relief, paralyzing the company's internal functioning without a conclusive finding on the merits of the case. The court also noted that the District Judge failed to apply the fundamental principles for granting interim relief, namely, the existence of a prima facie case, the balance of convenience, and the likelihood of irreparable harm.
- **Urgency and Statutory Provisions:** The court acknowledged that the Appellant Company had cited **urgent business** including concerns about financial irregularities and obstruction of audit processes as the reason for the meetings. This justification is relevant under the proviso to **Section 173(3)** of the Companies Act, 2013, which permits board meetings to be called with shorter notice to transact urgent business. The District Judge, however, overlooked this statutory provision and its balance between procedural rigor and operational flexibility.

Key Takeaways

- **Judicial Restraint:** Courts should exercise minimal interference in the internal governance of a company, especially concerning statutory processes like the removal of directors.
- **Purpose of Interim Relief:** An injunction is meant to preserve the status quo and is not to be used to grant a final and decisive remedy that halts a company's operations.
- **Urgency Justifies Shorter Notice:** The judgment confirms that urgent business, such as allegations of financial misconduct, can justify a shorter notice period for board meetings under the **Companies Act, 2013**.
- **Correct Use of Precedent:** The case highlights the critical importance of relying on accurate and current legal precedents as the District Judge's order was flawed for using a set-aside judgment.
- **Sufficiency of Statutory Remedies:** The court reinforced that the Companies Act, 2013, provides a comprehensive framework and adequate remedies for addressing procedural irregularities, making a drastic measure like an injunction unnecessary.

Conclusion

The High Court of Delhi concluded that the injunction was not legally supportable and lacked a factual basis. The court found that the order unjustifiably stalled a lawful statutory process and disrupted the company's corporate governance. The appeals were allowed, and the Impugned Order was set aside. The court directed the parties to pursue their remedies through arbitration or under the Companies Act, 2013, if necessary.

In conclusion, the Delhi High Court's judgment sets a precedent against judicial overreach into a company's internal affairs. By overturning the interim injunction, the court affirmed that the right to hold statutory meetings for the removal of directors is a fundamental aspect of corporate governance. The ruling clarifies that equitable relief, such as an injunction under the Arbitration and Conciliation Act, is intended to preserve the subject matter of a dispute, not to paralyze a company's operations or pre-emptively halt a lawful statutory process. The court's decision highlights that companies can act swiftly in cases of urgent business and that adequate statutory remedies exist to address any procedural irregularities after the fact.

For more details, write to us at: contact@indialaw.in

[1] FAO (COMM) 163/2025, CM APPL. 36952/2025

[2] FAO (COMM) 164/2025, CM APPL. 36956/2025

[3] (1986) 1 SCC 264

[4] 2017 SCC Online Del 10290

[5] (2018) SCC Online Del 1148

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