



CIVIL

Protecting Foreign Investments: The Supreme Court's Commitment to Rule of Law

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Introduction

In a recent judgment of Hyeoksoo son authorized representative for Daechang Seat Automotive Private Limited versus Moon June Seok & Anr.^[1], the Supreme Court of India has emphasized the critical role of the rule of law in protecting the investments of foreign investors. This decision highlights the judiciary's commitment to ensuring a fair and transparent legal environment, which is essential for attracting and retaining foreign investment.

The judgment highlights the judiciary's recognition of its role in maintaining a stable, predictable legal environment that foreign investors can trust an essential prerequisite for sustained economic growth and development. By elevating the protection of foreign investments to a constitutional imperative rather than merely a contractual obligation, the Supreme Court has sent a clear message about India's commitment to upholding international standards of investment protection.

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Factual Background

The case that led to this significant ruling involved Moon June Seok, an employee of Daechang Seat Automotive Ltd., a subsidiary of a South Korean company. The company operates in Bengaluru, India. Seok was accused of defrauding the company by colluding with a financial advisor to misappropriate funds intended for Goods and Services Tax (GST) payments.

Alleged Fraud and Initial Proceedings

1. **Financial Advisor Engagement:** Daechang Seat Automotive Ltd. engaged the services of M/s. N.K. Associates as Chartered Accountants and Financial Advisors.
2. **Misappropriation of Funds:** It was alleged that Daechang Seat Automotive Ltd. had wrongly claimed input tax credit amounting to ₹9,73,96,225.80. N.K. Associates advised the company that it was standard practice in India for tax amounts to be transferred to financial advisors who would then pay it to the concerned department.
3. **Transfer of Funds:** The company transferred funds totaling ₹10,18,54,894.80 to N.K. Associates and Terminus for purported Goods and Services Tax (GST) payments.
4. **Discovery of Fraud:** In October 2022, the Korean management discovered that the GST portal showed no mismatch of input tax credit, and the company had excess credit available. Further investigation revealed that the amounts transferred were never paid to the GST Department by N.K. Associates or Terminus.
5. **FIR:** The company, upon discovering the alleged fraud, registered a First Information Report (FIR) against Seok, leading to criminal proceedings.
6. **Role of Respondent:** Moon June Seok was the Chief Financial Officer (CFO) of Daechang Seat Automotive Ltd. at the time of the alleged offense. He was accused of colluding with N.K. Associates to defraud the company. Seok allegedly received ₹1,80,00,000 and was accused of being part of the conspiracy.
7. **High Court proceedings:** Seok approached the Karnataka High Court to quash the criminal proceedings against him. The High Court, convinced by his arguments, quashed the proceedings, noting that there was no prima facie material for framing charges against him.
8. **Supreme Court Proceedings:** The Supreme Court, upon reviewing the case, revived the criminal proceedings against Seok. The bench of Justices Sanjay Karol and Ahsanuddin Amanullah allowed an appeal filed by Hyeoksoon Son, the CFO and authorized representative of Daechang Seat Automotive Ltd., challenging the High Court's order.

The Supreme Court's Rationale

In its judgment, the Supreme Court highlighted that the rule of law has a dual responsibility. On one hand, it must protect the investments of foreign investors to ensure a stable and attractive investment climate. On the other hand, it must also uphold the principle of "innocent until proven guilty," ensuring that those accused of mishandling funds are given a fair trial. This delicate balance is crucial for maintaining investor confidence and upholding the integrity of the legal system.

Implications for Foreign Investment

This ruling sends a strong message to foreign investors that their investments in India are protected by the rule of law. It reassures them that the judiciary will act to prevent fraud and other illegal activities that could jeopardize their investments. This is particularly important in a globalized economy where foreign investment plays a vital role in economic growth and development.

Moreover, the Supreme Court's emphasis on the rule of law aligns with international best practices in protecting foreign investments. It reflects a commitment to creating a level playing field for both domestic and foreign investors, fostering an environment where businesses can thrive without fear of arbitrary actions or unjust treatment.

Conclusion

The recent judgment by the Supreme Court reaffirms the judiciary's role in upholding the rule of law to protect foreign investments. It demonstrates a clear understanding of the importance of a stable and predictable legal environment for attracting and retaining foreign capital. As India continues to integrate into the global economy, such judicial pronouncements are essential in building investor confidence and ensuring sustainable economic growth.

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[1] 2025 INSC 474