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COMMERCIAL/CORPORATE

NCLT Chennai Dismisses Oppression and Mismanagement Petition, Says Deadlock Between Equal Shareholders Cannot Be Treated as Oppression

In G. S. Rajesh v. Mars Consortium Infra Pvt. Ltd., the NCLT Chennai Bench dismissed a petition under Sections 397 and 398 of the Companies Act, 1956, holding that a breakdown of trust and a deadlock between two equal shareholders cannot by itself be treated as oppression or mismanagement.

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Case Name: G. S. Rajesh v. Mars Consortium Infra Pvt. Ltd. and Anr.

Case No: TCP No. 109 of 2016 along with CA/1/2013 and IA/450/2019 in TCP No. 109 of 2016, decided on 7 October 2026

Coram: Shri Sanjiv Jain (Judicial Member) and Shri Venkataraman Subramaniam (Technical Member)

Citation: (2026) ibclaw.in 3871 NCLT

The National Company Law Tribunal, Chennai Bench, has dismissed a petition under Sections 397 and 398 of the Companies Act, 1956, holding that a break down of mutual trust and confidence between two equal shareholders, and a deadlock arising from their differences, cannot by itself be treated as oppression or mismanagement. The connected applications for surcharge and for recovery of Rs. 7,69,60,500 with interest were also dismissed.

The petitioner sought a direction to the second respondent to purchase his shares at a value fixed by an independent valuer, repayment of unauthorised withdrawals and costs for use of Company vehicles, and surcharge for breach of fiduciary duty. He described the Company as a quasi-partnership in which he and the second respondent held equal shares. He alleged that the second respondent, who operated the bank accounts, siphoned funds and diverted business to his proprietorship, M/s Rolls. The second respondent denied the allegations. He submitted that the petitioner was the Managing Director of the Company, that the petition was a counterblast to his legal notice, and that the petitioner had forged his signatures on bank documents and withdrawn funds.

The Tribunal first took up the preliminary objections. It observed that the petitioner was the Managing Director of the Company since incorporation, and that defaults such as non-finalisation of accounts, non-filing with the Registrar of Companies and absence of Board meetings were matters for which he was answerable at the first instance. It also found substance in the complaint of incomplete disclosure of the flow of funds between the Company and P&P, an entity of the petitioner. The Tribunal held that these objections weigh materially against the exercise of discretionary jurisdiction, but proceeded to examine the merits and recorded that its conclusion would be the same even if they were left out of account.

On the question of quasi-partnership, the Tribunal accepted that the Company was closely held by two persons known to each other. Relying on Ebrahimi v. Westbourne Galleries Ltd. and Kilpest Private Limited v. Shekhar Mehra, it held that a closely held company or earlier friendly association does not by itself make a quasi-partnership. It found the relationship to have a substantially commercial foundation, reflected in written agreements, a Board resolution, lease agreements and securities furnished for borrowings. The Company was held to be a closely held company in which equitable considerations are of limited and non-decisive relevance.

On oppression, the Tribunal referred to Shanti Prasad Jain v. Kalinga Tubes Ltd., Needle Industries (India) Ltd. v. Needle Industries Newey (India) Holding Ltd. and Hanuman Prasad Bagri v. Bagress Cereals (P) Ltd. It noted that the conduct complained of must be burdensome, harsh and wrongful, that it must be a continuous course of conduct up to the date of petition, and that the burden lies on the member alleging oppression.

The Tribunal gave respectful consideration to the reports of the auditor appointed by it, but held that such a report is an aid and not a substitute for adjudication. The reports themselves recorded that a conclusive valuation could not be arrived at for want of complete and reliable financial information, and it was held that an inconclusive report cannot be the foundation of findings of oppression, mismanagement and misfeasance. An adverse inference against the second respondent for not furnishing the Tally password was declined, as neither director had placed a complete set of primary records before the Tribunal.

On the specific allegations, the Tribunal held that the lease arrangements with M/s Rolls were reduced to writing, invoices were raised and the arrangements were not clandestine. Non-compliance with Sections 297 and 299 was held not to be oppression without more, and the Tribunal observed that it does not sit in appeal over the commercial wisdom of a company's transactions. The receipt of Rs. 15 lakhs by the second respondent's wife, though the most concrete allegation, was disputed in character, was the subject of a pending civil suit, and related to 2017 while the petition was instituted in 2012. The entries said to suggest recycling of cash were held to be merely suggestive, and the allegation of a competing tender was held to be an inference without supporting material.

The Tribunal held that two equal shareholders had fallen out in 2012, each accusing the other of taking the Company's money, each relying on an accountant's report, and neither producing complete primary documents. It held that it could not single out one of two similarly situated shareholders on competing allegations, and that the consequence of deadlock cannot be converted into oppression without proof of an independent act of mismanagement causing prejudice to the Company.

On misfeasance under Sections 543 to 545, relying on Official Liquidator v. P.A. Tendolkar, the Tribunal noted that not one sum was established as misapplied or retained by the second respondent. It rejected the request to declare liability in principle and remit quantification to a forensic audit, observing that this would invert the order of adjudication. The counter-allegations of forgery and siphoning against the petitioner were also held not established, as the account was operated on joint signatures for the greater part of the period and the petitioner had been discharged in the criminal proceedings. The Tribunal clarified that a discharge is not a positive adjudication that no offence was committed.

Since the foundation under Section 397 or 398 was absent, no direction under Sections 402 and 403 could issue. TCP No. 109 of 2016, CA No. 1 of 2013 and IA No. 450 of 2019 were dismissed. The interim order dated 1 and 2 November 2012 restraining the second respondent from dealing with the Company's assets was vacated, and the auditor's remuneration was directed to be borne by the Company. The Tribunal recorded that the petitioner had not approached it with clean hands, that the second respondent had not cooperated with the audit, and that its findings are not findings that the transactions did not occur. Either party may pursue other civil, criminal or other proceedings available to them, to be decided on their own merits.