



COMMERCIAL/CORPORATE

Judicial Clarification on OPC Liability in Arbitration: Bombay High Court in Saravana Prasad v. Endemol India Pvt. Ltd.

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Introduction

In a significant ruling, the Bombay High Court clarified the legal position on the liability of One Person Companies (OPCs) and the extent to which their sole shareholders can be held personally liable in arbitration proceedings. In *Saravana Prasad v. Endemol India Pvt. Ltd.*, the Court set aside an arbitral tribunal's interim order that had imposed personal deposit and disclosure obligations on Mr. Saravana Prasad, the sole shareholder of an OPC. It upheld the principle of limited liability under Indian corporate law, reinforcing the statutory protections available to individuals who incorporate OPCs.

Background of the Case

Innovative Film Academy Pvt. Ltd., a One Person Company incorporated by Mr. Saravana Prasad, entered into a production agreement with Endemol India Pvt. Ltd. on March 10, 2021. The agreement involved Endemol creating and delivering regional versions of the “MasterChef” television show in Tamil, Telugu, Kannada, and Malayalam.

Endemol delivered episodes in Tamil and Telugu and raised four invoices totaling approximately ₹15.93 crores. Of this, ₹4.45 crores was paid by Innovative, and ₹1.08 crores was adjusted against dues in another contract. The remaining ₹10.40 crores became the subject of a dispute and triggered arbitral proceedings initiated by Endemol.

In an interim order under Section 17 of the Arbitration and Conciliation Act, 1996, the arbitral tribunal directed both Innovative and Mr. Prasad to deposit ₹10.40 crores in a fixed deposit and make wide-ranging disclosures regarding assets, liabilities, and income since March 2019.

Arguments

Endemol India relied heavily on a balance confirmation letter dated July 11, 2022, issued by Innovative, acknowledging ₹10.40 crores as due. It argued that Mr. Prasad, being the sole director and shareholder of Innovative, should be personally liable. Endemol pointed out that Prasad signed all correspondence and agreements and contended that this warranted personal accountability and disclosure obligations.

Innovative and Mr. Prasad countered that the arbitral tribunal had overstepped its jurisdiction. They emphasized that Prasad was not a party to the agreement, and the confirmation letter was merely a routine audit document, not conclusive evidence of debt. They further argued that the corporate veil could not be pierced without strong grounds, and the entire basis of an OPC is to maintain corporate separateness with limited liability protection.

Court's Observations

The Bombay High Court ruled that the arbitral tribunal's direction requiring Innovative to secure the disputed amount via a fixed deposit was fair and balanced. However, extending such a direction to Mr. Prasad personally was legally unsustainable.

The Court explained that an OPC is a distinct legal entity under Section 2(62) of the Companies Act, 2013, which specifically allows a single individual to form a private limited company while enjoying limited liability. It held that merely being the sole shareholder or director does not translate to personal liability unless there is independent contractual liability, fraud, or evidence of misuse.

The Court emphasized that imposing personal disclosure obligations and deposit requirements on Prasad undermined the legislative intent behind OPCs. It observed that the arbitral tribunal had failed to distinguish between Innovative and Prasad, treating them interchangeably, something that directly contradicted both statutory law and settled jurisprudence.

The Court rejected Endemol's attempt to draw an analogy with *Cox & Kings v. SAP India*, finding it wholly inapplicable. It noted there was no prima facie material suggesting that Prasad had undertaken any personal liability, nor was there any contractual basis to justify such interim measures against him.

Conclusion

The Bombay High Court partially allowed the appeal, setting aside the interim arbitral directions that imposed personal obligations on Mr. Saravana Prasad. It upheld the directions requiring Innovative to maintain a fixed deposit and make relevant

disclosures, finding these reasonable in the context of pending arbitration.

This judgment marks a critical reaffirmation of the principle of corporate separateness and limited liability, particularly for OPCs. It sends a clear message that shareholders, even sole shareholders, cannot be held personally liable for corporate debts unless specific legal thresholds are met. The Court's reasoning underscores that OPCs are not a legal fiction but a deliberate legislative innovation intended to protect individual entrepreneurs from personal financial exposure in business ventures.

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