

SC order upholds company board supremacy

Verdict restricts scope of court's interference in the corporate decision-making process

SURESH P. IYENGAR

Mumbai, March 26

The verdict of the three-judge Bench of the Supreme Court has not only put a lid on the most publicly and fiercely contested corporate war but will also have ramifications for corporate governance issues.

Shiju PV, Partner, IndiaLaw LLP said the order will have profound impact on corporate governance jurisprudence as it restricts the scope of the Court's interference in the corporate decision-making process and allows decision-making based on the majority in the Board.

The epic corporate war started in

2016, when Cyrus Mistry was dismissed as Chairman of Tata Sons, the Group's main holding company. Mistry also lost his seat on the board despite his family's 18.47 per cent shareholding in the company.

This prompted him to file a case of oppression and mismanagement against the Tata group. While NCLT ruled against Mistry, NCLAT judgment was in favour of him. This led to the Tatas moving the Supreme Court.

NCLAT decision surprising Saket Shukla, co-founding Partner, Phoenix Legal said the NCLAT's decision on Mistry case was surprising and had made several corporates sit on the edge of their seats.

The Supreme Court verdict affirms some of the fundamentals of corporate governance, including the supremacy of charter documents, autonomy and

independence of the board and the rights of private companies and shareholders to govern their relationship, said Shukla.

The ruling also comes as a blow to the Mistry group as it effectively allows Tata Sons to enforce its rights under the Articles and cause the Mistry group's shareholding to be transferred.

All questions answered

On the allegations on corporate governance issues raised by Mistry at the time of his ouster, Shukla said oppression and management issues are quite fact-specific and vary from case to case. While the detailed judgment would shed more light, it seems that the Supreme Court has answered all questions in favour of the Tatas and unless some new facts emerge, the verdict

should put to rest the various allegations that were made.

AP Singh, Partner of the law firm MV

Kini said the verdict upholds the terms of Articles of Association, and the dismissal of SP group's appeal will have serious implications on the ability of the Mistry family to raise funds through sale of its 18.37 per cent stake in Tata Sons.

"SC ruling is all about corporate democracy. It has simply upheld that a majority shareholder can remove the minority from a company's board. Corporate governance has to be seen at contextual level. SC ruling in the Tata-Mistry fight is no blanket statement on corporate governance in listed companies," said Sriram Subramanian, founder, InGovern, a proxy advisor.



IL NEWS

Shiju P. Veetil, Senior Partner, IndiaLaw LLP quoted on The Hindu Business Line Today

AUTHOR IndiaLaw LLP

PUBLISHED 27 March 2021

