Corporate Law

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1. Introduction

The Hon'ble High Court of Allahabad [hereinafter referred to as "Court"] occupies a significant position in the legal landscape of the country in shaping the law of the nation. This survey aims at analysing the prominent and predominant judgements rendered by the court in the realm of corporate law in the year 2024. The survey aims to analyse thematic trends in the rulings of the court during the year 2024 and will critically examine themes such as Regulatory Overreach by Administrative power, Piercing the Corporate Veil, Primacy of the Insolvency Regime and Quasi Corporate realms such as the S.A.R.F.A.E.S.I. Act.

The survey provides an analysis of a few landmark judgements under each of the above themes, examining the key observations by the court and discussing their broader implications for the commercial legal environment and the society at large. It is pertinent to note that some judgements filed in 2024 were delivered in early 2025. For the purpose of this review, these cases are considered part of the 2024 legal developments, as their genesis and substantive arguments are rooted in the year under review. Furthermore, owing to the fact that the Allahabad High Court does not have a system of providing a monthly or yearly statement of cases dealt by the Court, random selection based on the social impact of judgements was used to select the aforementioned areas of law to be analysed.

The first four sections of the survey aim at analysing the abovementioned 4 themes that the Court delved into during the year 2024. Finally, the survey provides a holistic analysis of the trend of the Court in the realm of corporate law, and the way forward.

2. The Primacy of the Insolvency Regime

In July 2024, the Court delivered a significant judgement in a matter involving the intersection between the Insolvency and Bankruptcy Code, 2016 [hereinafter referred to as "I.B.C."] and the UP Goods and Services Tax Act, 2017 [hereinafter referred to as "U.P. G.S.T. Act"], in the case of *M/S BGR Energy Systems Ltd* v. *State of U.P. and Another.*[1] This judgement provided a significant amount of clarity on the jurisdictional conflict between the I.B.C. and the G.S.T. Act. Briefly stated, the petitioner company, M/s BGR Energy Systems Ltd, was undergoing the Corporate Insolvency Resolution Process under the I.B.C. when the Tax Authority passed an order against it under Section 73 of the U.P. G.S.T. Act. The petitioner was, prior to the passing of the impugned order, issued a show cause notice by the tax authority, whereupon in its reply to the same, the company clearly highlighted the fact

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[1] *M/s BGR Energy Systems Ltd.* v. *State of U.P.*, Writ Tax No. 1026 of 2024.

that it was in the process of C.I.R.P. before the Interim Resolution Professional ["I.R.P."] who had been appointed for the same, and thus sought time to seek permission of the IRP to participate in the proceedings in respect of the tax authority. However, no further notice was issued to the petitioner or date fixed in the adjudication proceedings by the tax authority and they directly proceeded to pass the impugned order, which was challenged before the Court.

The central legal question before the division bench, comprising of Hon'ble Justices Saumitra Dayal Singh and Donadi Ramesh, was thus, whether the tax authority could pursue independent recovery proceedings against a company during the C.I.R.P. moratorium. The Court, while observing that in the instant case although the C.I.R.P. proceedings had been set aside by the concerned Tribunal and could not be communicated to the tax authority in time, the impugned order could not have been passed under Section 73 of the U.P. G.S.T. Act, and thus, set aside the same. The Court's reasoning was based strongly on the umbrella/moratorium that the I.B.C. imposes under Section 14.[2]

The Court's decision in BGR Energy reinforces strongly the supremacy of the I.B.C.'s legislative intent. The I.B.C., a specialized statute, enacted by the legislature with the purpose of providing a comprehensive and time – bound manner for corporate resolution, has at its cornerstone, the moratorium imposed under Section 14. The ruling of the court ensures that this framework is not undermined by the piecemeal and fragmented actions or recovery proceedings undertaken by various other authorities such as in the instant case, tax authorities. Thus, the decision reinforces the judicial trend in the country of encouraging active and robust participation in the CIRP process.[3] From the social and economic angle, this judgement, by indirectly ensuring that companies are more incentivised to go through the CIRP process in the event of bankruptcy, acts as a catalyst to economic revitalisation of the macro economy of the nation while also, on the private front, preserving the value of the company's assets.

3. Piercing the Corporate Veil

The doctrine of corporate veil, refers to the legal distinction between a company, as an independent legal entity and its officers, and forms a significant cornerstone of modern corporate law. The doctrine thus, ensures that it is the company itself, rather than its officers, that is held accountable and liable for activities undertaken in respect of the operations of the company. The principle of corporate veil can be jurisprudentially and internationally traced back to the decision rendered in the case of *Salomon* v. *Salomon & Co. Ltd.* where the House

[2] Insolvency and Bankruptcy Code, 2016 (Act 31 of 2016), s. 14.

[3] *Sundaresh Bhatt* v. *Central Board of Indirect Taxes and Customs*, (2022) 7 SCC 321.

of Lords affirmed the principle that a company, upon its incorporation possesses a separate legal personality that is distinct from its shareholders.[4]

The crux of the principle of separate legal personality can be illustrated through the following observations of Lord Halsbury in the case of Salomon:

> …[a] limited company was to be viewed like any other independent person with its rights and liabilities appropriate to itself …either the limited company was a legal entity or it was not. If it was, the business belonged to it and not to Mr. Salomon. If it was not, there was no person and no thing to be an agent at all; and it is impossible to say at the same time that there is a company and there is not.

This principle has thereafter been adopted and adapted in multiple jurisdictions, including in Indian Law.

The aforementioned principle has been codified under section 9 of the Companies Act. It provides, "From the date of incorporation mentioned in the certificate of incorporation, such subscribers to the memorandum and all other persons, as may, from time to time, become members of the company, shall be a body corporate by the name contained in the memorandum, capable of exercising all the functions of an incorporated company under this Act and having perpetual succession with power to acquire, hold and dispose of property, both movable and immovable, tangible and intangible, to contract and to sue and be sued, by the said name."[5] The corporate veil, therefore, protects shareholders and officers from personal liability for the company's debts, except in specific, narrowly defined circumstances.

The Supreme Court of India [hereinafter referred to as "SC"] recognized the aforesaid principle in the year 1950 in *Chiranjit Lal Chowdhuri* v. *The Union of Indi*a,[6] and thereafter, reaffirmed the same at length in *Bacha F. Guzdar* v. *CIT, Bombay* in 1954. In both the instances, the Court observed that the identity of the company was separate from that of its shareholders.[7] Over the years, Indian courts have articulated that while the corporate veil is generally sacrosanct, it is not inviolable. In the State *of U.P.* v. *Renusagar Power Co. Ltd.* (1988), the Supreme Court recognized that although a company is distinct, the veil may be pierced where misuse, fraud, or statutory violation occurs.[8] Similarly, in *Life Insurance*

[4] *Salomon* v. *A. Salomon & Co. Ltd.*, [1896] UKHL 1.
[5] Companies Act, 2013 (Act 18 of 2013), s. 9.
[6] *Chiranjit Lal Chowdhuri* v. *Union of India*, [1950] S.C.R. 869.
[7] *Bacha F. Guzdar* v. *Commissioner of Income Tax, Bombay*, 1954 INSC 102.
[8] *State of Uttar Pradesh* v. *Renusagar Power Co. Ltd.*, AIR 1988 SC 1737.

Corporation of India v. *Escorts Ltd.* (1986), the Court emphasized that the doctrine protects business actors while simultaneously allowing judicial scrutiny to prevent misuse.[9]

The foregoing discussion has established that while the doctrine of separate corporate personality is firmly entrenched in Indian law, it is not absolute. Moreover, the above situations are not the only ones where the corporate veil may be lifted by courts. Judicial rulings have established, as stated above, certain conclusive exceptions to the doctrine of corporate veil, where the same may be lifted, such as fraud or improper conduct, sham companies, when a company functions as an agency or instrumentality of its officers or members, and where a company has been formed solely to evade legal duties and obligations. In the year 2024, the Allahabad High Court handled a case that raised an important question about a particular exception. The case of Dhanush Vir Singh v. Dr. Ila Sharma and Others serves as a clear example of how the Indian judiciary has applied the doctrine of corporate veil in recent times.[10] In this case, the court examined whether the directors or authorized representatives of a company could be arrested or detained to enforce a money decree against the company.

The court, in the case of Dhanush Vir Singh dealt with a factual matrix where the Revisionist, who was acting as the General Manager and Branch Head of M/s Benett Coleman and Co. Ltd., had been authorized to enter into a lease agreement for a period of nine years. The lessee had the right to terminate the lease by giving a notice of three months. The lease was terminated by the lessor on 22 April 2016, which led to a request for the company to vacate the premises and hand over vacant possession within 30 days. The lessor also claimed mesne profits at the rate of Rs. 2,500 per day until the possession was actually handed over. The company failed to vacate the premises, prompting the lessor to file a suit seeking eviction and recovery of mesne profits. The company later claimed that it was ready to hand over the possession but the lessor refused to accept it. Despite this, possession was eventually handed over to the lessor on 1 October 2019, and the suit was proceeded with ex parte, resulting in a decree on 5 August 2021. The decree mandated the company to pay mesne profits at the rate of Rs. 2,500 per day from the date of the suit until possession was delivered. Following this, an execution petition was filed by the lessor, and the Revisionist was included in the suit as he was the signatory to the lease agreement. An arrest warrant was then issued against the Revisionist by the decree holder, which was challenged before the High Court of Allahabad in this case. The central question before the Court was whether the directors or authorized representatives of a limited company could be arrested and detained

[9] *Life Insurance Corporation of India* v. *Escorts Ltd.*, AIR 1986 SC 1370.
[10] *Dhanush Vir Singh* v. *Dr. Ila Sharma and Others*, 2024:AHC:113931.

in civil prison for the execution of a monetary decree against the company, or whether such representatives are legally bound to act on behalf of the company in executing the decree.

The Court, while allowing the revision petition, first held that the provisions of the Code of Civil Procedure, 1908 (C.P.C.) relating to the execution of a decree and attachment of property were applicable only to the judgment debtor, which in this case was the company, and not the Revisionist. The Court emphasized that the C.P.C. does not provide for the execution of a decree against a company through its employees, representatives, or directors, and at most allows such proceedings against a firm from the assets of its partners, or the oral examination of an officer of a corporation to ascertain its assets.

Citing the case of *Tata Engineering and Locomotive Co. Ltd.* v. *State of Bihar*, where the Supreme Court held that the corporate veil can be lifted only when there is a dual relationship between the company and its members or shareholders, the Court concluded that since the company, and not the Revisionist, was the judgment debtor, and the Revisionist was merely the General Manager and Branch Head and later Vice President of the company, he could not be arrested.

This judgment reinforces the principle of corporate entity as a separate entity in civil enforcement proceedings, and clearly outlines the distinction between a corporate judgment debtor and its officers and affirms the high legal standard required for courts to disregard the corporate personality. From a social perspective, the recognition of a company as a separate legal entity allows for the concentration of economic power, encourages capital accumulation, and supports entrepreneurship. However, these benefits come with the cost of diluted responsibility, enabling individuals within corporations to externalize harm caused by their operations onto weaker sections of society. This can be observed in cases like the Bhopal Gas Tragedy and in other corporate law cases such as *Tata Consultancy Services Limited* v. *Cyrus Investments Pvt Ltd*, where the Supreme Court pierced the corporate veil due to significant shareholder interests being affected. The doctrine has also been argued to contribute to growing economic inequality, as corporations can engage in questionable ventures with limited personal liability. Where the corporate veil remains intact, due to inconsistent judicial approaches, corporations may evade labour law obligations, environmental responsibilities, taxation duties, and other legal duties.

4. Regulatory Overreach Through Administrative Power

In the year 2024, the Court also addressed the critical issue of administrative power and its limits, as expounded upon in its judgement in *M/s Marion Biotech Private Limited* v.

State of UP and Ors.[11] The Court dealt with a serious public health matter involving the deaths of children in Uzbekistan which were purportedly linked to a cough syrup manufactured by the petitioner company. While the company's license was initially suspended, it was subsequently revived on appeal before the concerned authority. Thereafter however, the appellate authority initiated a review of its own order reviving the license of the company, suspended its license again and directed the petitioner company to provide certified copies of orders passed by foreign courts in this regard. Thus, the issue presented before the Court was whether the appellate authority under the Drugs and Cosmetics Act, 1940 and the corresponding Rules of 1945 possessed a power to review its own final order. The analysis of the Court was centred on the paramount and well settled principle or doctrine of *functus officio*, which is a principle rooted in the foundation of administrative law, and provides that a "Court ceases to exercise its jurisdiction once any appeal or application is disposed of".[12] The Court applying the doctrine of functus officio, allowed the writ petition, quashed the review order, and held that the appellate authority had acted beyond the powers of its jurisdiction.

The judgement of the Court in the case of *Marion Biotech*, by reiterating the principle that administrative authorities must act strictly within their statutory powers, from a commercial point of view, reinforces the principle that public bodies, even under the garb of public interest, cannot act on their whims and fancies. The judgement thus provides companies a predictable legal framework, to safely and predictably undertake their day-to-day operations. A regulatory environment that is over – emphasized on a broad interpretation of "public interest" would discourage business activity. On the other hand, a regime centered on the principle reiterated by the Court in the decision of *Marion Biotech* reduces risks for companies and encourages long-term investment.

Yet another principle laid down by the Court in this decision was its observation that "Indian laws relating to drugs are exhaustive and self-sufficient" and do not require "validation of the judgement passed by a foreign court". Thus, the court asserted and laid down strongly, the autonomy and sufficiency of the current Indian domestic legal system. Thus, the judgement also has the implication that Indian companies in disputes involving more than one jurisdiction do not have to contend with potentially conflicting decisions of various courts.

[11] *M/s Marion Biotech Private Limited* v. *State of Uttar Pradesh*, 2025:AHC:86264.
[12] *Mahanth Ramdas* v. *Gangadas*, AIR 1961 SC 882.

5. Corporate Liability Under The Negotiable Instruments Act

Another theme or the aspect that the Court delved into in 2024 was corporate liability under the Negotiable Instruments Act, 1881 [hereinafter referred to as "N.I. Act"] in the case of *Kishore Shankar Signapurkar* v. *State of U.P. & Anr.*[13] This case involved the director of a company, the applicant in the case who was accused of an offence under Section 138 of the N.I. Act in lieu of cheques issued by the company he was a director of. The applicant approached the court, challenging the summons issued to him on the ground that the company itself had not been independently and separately summoned.

Before Hon'ble Justice Anish Kumar Gupta, the primary question of law was thus whether a summons only to a director is legal pre-service when the company is also an accused person in a prosecution. The question was decided with reference to the fact that a company is a juristic person that can only act or be served with processes by a natural person such as its director or person in charge of its affairs. Reference was made to the key Supreme Court precedents like *Aneeta Hada* v. *Godfather Travels* which emphasized that the company must be an accused by name in order for a prosecution to be maintainable under 141,[14] therefore, the Court held the summons to the director did not invalidate service because they were the signatory to the cheque on behalf of the company.

This judgement thus clarifies that where a company is already named as an accused in a complaint under Section 138 of the N.I. Act, service of summons to the director who is also the person in charge and signatory of the cheque in question, is a legal and valid service of summons on the company itself. The Court thus dismissed the application under Section 482 of the Code of Criminal Procedure, 1973 to quash the proceedings and ensured that a technical procedural ground cannot be used to evade substantive liability and responsibility. Furthermore, citing with reference, the case of *K.K. Ahuja* v. *V.K. Vora*, the Court observed that where the director who was arraigned as an accused was the signatory to the cheque in question, no requirement existed of specific averments to be made in respect of day – to – day control exercised by him, and that liability against him was presumed.[15]

The ruling of the Court in the case of *Kishore Shankar Signapurkar* reinforces and reiterates the principle that directors of a company cannot and shall not be permitted to

[13] *Kishore Shankar Singnapurkar* v. *State of Uttar Pradesh*, Application under Section 482 Cr.P.C. No. 4898 of 2019 (All. HC).

[14] *Aneeta Hada* v. *M/s Godfather Travels and Tours Pvt. Ltd.*, (2012) 5 SCC 661.

[15] *KK Ahuja* v. *KK Vora*, (2009) 10 SCC 48.

exploit technical and procedural formalities in order to prolong, derail or delay prosecutions for the dishonour of cheques. On the social front, the decision reinforces commercial trust in proceedings under the N.I. Act and ensures that accountability of directors and officers of a company cannot be diluted or evaded through trivial objections.

6. S.A.R.F.A.E.S.I. Proceedings Vis – A – Vis Proceedings Before Civil Courts

In addition to the aforementioned cases, other rulings of the Court in 2024 as well contributed significantly to the development of corporate jurisprudence. In *Omnarayansri Agrifarmer Pvt. Ltd.* v. *Punjab National Bank and Ors*., the Court's decision affirmed the principle that a civil suit against the classification of a bank account as a Non – Performing Asset ["NPA"] under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (S.A.R.F.A.E.S.I.) Act, 2002 was barred in accordance with Section 34.[16] This decision not only reinforces the fundamental nature of the S.A.R.F.A.E.S.I. Act as a specialised, non – judicial statute but also strengthens the rights and powers vested with Non – Banking Financial Companies under the S.A.R.F.A.E.S.I. Act to carry out procedures of recovery of NPAs. Furthermore, on the commercial and economic fronts, the decision reiterates the legislative intent behind the enactment of the S.A.R.F.A.E.S.I. Act, (i.e) to provide for a swift and efficient mechanism for faster and more swift debt recovery, thus enhancing the stability and predictability of the financial sector of the economy.

7. Conclusion

The foregoing discussion indicates that during the year 2024, the Court has dealt with a wide range of areas affecting corporate and quasi – corporate realms of the law, ranging from the fundamental principle of corporate law of piercing the veil to quasi – corporate areas such as the S.A.R.F.A.E.S.I. Act. Furthermore, it also indicates that the judgements rendered by the Court have followed the traditionally laid down precedents in respect of the questions of law before the Court and have deep and pervasive socio – economic implications. However, one pertinent lacuna in the corporate law jurisprudence in India can be seen in the form of inconsistent rulings and approaches taken by the courts to the principle of piercing the corporate veil. Additionally, from a social context, individual shareholders, marginalized sectors of the society and small-time creditors often stand at a disadvantageous position in respect of the principle of piercing the corporate veil.

With respect to the practices of the Allahabad High Court, a pertinent finding and recommendation is that the Court should consider implementing a system of releasing a

[16] *Omnarayansri Agrifarmer Pvt. Ltd.* v. *Punjab National Bank*, 2024 AHC 166816.

monthly statement of cases dealt with under various realms of law, to aid better in analysing and assessing the sectoral functioning of the Court. Such a measure would go a long way in aiding academicians and policy makers, to arrive at better solutions for judicial efficiency, in the era of rising pendency of cases as well.