



INTERNATIONAL LAW  
JOURNAL

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**WHITE BLACK  
LEGAL LAW  
JOURNAL**  
**ISSN: 2581-  
8503**

**Peer - Reviewed & Refereed Journal**

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Associate Professor at School of Law, Apex University, Jaipur, M.A, LL.M, Ph.D,

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E.MBA, LL.M, Ph.D, PGDSAPM

Currently working as Assistant Professor at Law Centre II, Faculty of Law, University of Delhi. Dr. Nitesh have 14 years of Teaching, Administrative and research experience in Renowned Institutions like Amity University, Tata Institute of Social Sciences, Jai Narain Vyas University Jodhpur, Jagannath University and Nirma University.

More than 25 Publications in renowned National and International Journals and has authored a Text book on Cr.P.C and Juvenile Delinquency law.



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BBA. LL.B. (Hons.) (Amity University, Rajasthan); LL. M. (UPES, Dehradun) (Nottingham Trent University, UK); Ph.D. Candidate (G.D. Goenka University)

Subhrajit did his LL.M. in Sports Law, from Nottingham Trent University of United Kingdoms, with international scholarship provided by university; he has also completed another LL.M. in Energy Law from University of Petroleum and Energy Studies, India. He did his B.B.A.LL.B. (Hons.) focussing on International Trade Law.

## ***ABOUT US***

WHITE BLACK LEGAL is an open access, peer-reviewed and refereed journal providededicated to express views on topical legal issues, thereby generating a cross current of ideas on emerging matters. This platform shall also ignite the initiative and desire of young law students to contribute in the field of law. The erudite response of legal luminaries shall be solicited to enable readers to explore challenges that lie before law makers, lawyers and the society at large, in the event of the ever changing social, economic and technological scenario.

With this thought, we hereby present to you

# **APPLICABILITY OF THE LIMITATION ACT TO OPPRESSION AND MISMANAGEMENT CLAIMS.**

AUTHORED BY: SMRITHI ANILKUMAR,  
3<sup>rd</sup> year Law Student,  
The School of Excellence in Law,  
Tamilnadu Dr. Ambedkar Law University.

CO-AUTHOR: DR. S. MARUTHAVIJAYAN,  
Assistant Professor,  
SOEL, TNDALU

## **ABSTRACT:**

Oppression and mismanagement under the Companies Act allow redress for minority shareholder harm. Article 137 of the Limitation Act sets a 3-year limit, but continuous wrongs, as emphasized in *Needle Industries*, extend this. Courts balance limitation with equity, allowing consideration of older actions forming ongoing patterns. The NCLT can intervene if oppressive conduct persists, ensuring fairness despite time elapsed.

**Keywords:** Oppression, Mismanagement, Companies Act, Limitation Act, Continuing Wrong, *Needle Industries*, NCLT, shareholder rights.

## **REVIEW OF LITERATURE:**

This ClearTax article<sup>1</sup> presents a clear explanation of how oppression and mismanagement typically manifest through continuous, dishonest, unfair, or prejudicial actions affecting the rights of shareholders or compromising the company's financial, managerial, or operational health. The concept of Oppression and Mismanagement in corporate law fundamentally addresses situations where those in control of a company usually the majority shareholders or directors misuse their position to the detriment of minority shareholders or the overall interests of the company. The Companies Act, 2013, specifically under Sections 241<sup>2</sup> to 246<sup>3</sup>, offers

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<sup>1</sup> ClearTax, Oppression and Mismanagement under Companies Act, 2013 (Jun. 17, 2024)

<sup>2</sup> Companies Act, 2013, § 241

<sup>3</sup> Companies Act, 2013, § 246



remedial provisions to protect members facing such harmful and prejudicial conduct. These provisions create an essential balance between majority rule in corporate decision-making and the safeguarding of minority rights against unfair, oppressive, or fraudulent practices. It emphasizes that while corporate governance is primarily driven by the principle of majority rule as established in the seminal English case *Foss v. Harbottle*<sup>4</sup> unchecked control by majority shareholders can lead to systematic exclusion, exploitation, and oppression of minority shareholders. In such instances, the Companies Act empowers aggrieved members holding a specified shareholding threshold to approach the National Company Law Tribunal (NCLT). The Tribunal, in turn, has broad powers to issue a range of directions, including regulating future management, cancelling or modifying transactions, setting aside actions taken in bad faith, or even restructuring the company's affairs. Importantly, the article explains that such harmful corporate situations generally unfold gradually, often making it difficult to isolate a single incident of oppression or mismanagement which justifies the legal recognition of the continuing nature of such wrongs.

The SCC Online blog<sup>5</sup> further elaborates that oppression and mismanagement are not merely isolated wrongdoings but are best understood as continuing wrongs i.e. a series of unfair and prejudicial practices that cumulatively result in significant harm. Indian courts have acknowledged this feature in various judgements, treating it as a key factor when deciding whether a petition under Sections 241–242 is maintainable, especially where limitation concerns are raised. The blog references pivotal judgments, notably *Needle Industries (India) Ltd. v. Needle Industries Newey (India) Ltd. (1981)*<sup>6</sup>, where the Supreme Court of India clarified that in cases of oppression, the cause of action typically spans an extended period, as the oppressive conduct often persists over time. This Doctrine of Continuing Wrong directly influences the application to limitation periods, allowing relief even if certain specific incidents seem to be time-barred, provided the overall oppressive or mismanaged state of affairs remains ongoing. This ensures that minority shareholders are not denied fair treatment and justice simply because the conduct did not crystallize into a single, time-bound act.

The ICSI study material<sup>7</sup> offers a more detailed statutory and procedural examination,

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<sup>4</sup> (1843) 67 ER 189

<sup>5</sup> Aditya Jalan & Urvashi Misra, Action Against Oppression and Mismanagement (June 7, 2022)

<sup>6</sup> 1981 AIR 1298

<sup>7</sup> Ashish O. Lalpuria, Oppression & Mismanagement (Practising Company Secretary, 2022)



highlighting the various remedies and protections available to shareholders. It offers support to the legal position that acts of oppression and mismanagement generally occur as part of a sustained and ongoing course of conduct. This document also highlights that the Companies Act, 2013 does not give a specific limitation period for filing petitions under Sections 241–242<sup>8</sup>. It provides flexibility for courts and tribunals to exercise discretion in assessing whether the petitioner has approached the forum diligently, without unreasonable delay, and in good faith. This is important particularly in cases involving continuing acts of oppression or mismanagement. This particular study material observes that enforcing strict limitation norms law.in such matters would undermine the protective purpose of the legislation, allowing majority shareholders or management to continue oppressive practices unchecked merely because procedural deadlines have passed. As long as the state of oppression or mismanagement persists, shareholders retain the right to seek redress and judicial intervention, regardless of when the initial acts began. This principle ensures upholding the equitable spirit of company

### **HOW DOES OPPRESSION AND MISMANAGEMENT WORK?**

Oppression and mismanagement provisions under the Companies Act, 2013 (Sections 241–246, the Companies Act, 2013) are designed to protect minority shareholders and the company itself from abusive or prejudicial conduct by those in control. “Oppression” occurs when majority stakeholders or directors exercise power in a manner that is burdensome, harsh, or wrongful toward minority members, for instance by excluding them from information or unfairly diluting their economic interests. “Mismanagement,” on the other hand, involves prejudicial or fraudulent acts that impair the company’s operations or assets like diverting funds, improper appointment of directors, or repeated board deadlocks.

**Illustration:** To illustrate, consider a hypothetical private company where the majority shareholders begin approving related-party transactions at inflated prices, systematically cutting out minority members from dividend declarations, and passing resolutions without proper quorum to benefit management insiders. Over time, minority shareholders find their voting power diluted, dividends reduced, and company funds siphoned off. Such cumulative conduct exemplifies both Oppression (through unfair exclusion and dilution) and Mismanagement (through misallocation of corporate assets).

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<sup>8</sup> Companies Act, 2013, § 242

## **NEEDLE INDUSTRIES V. NEEDLE INDUSTRIES**

### **NEWY (INDIA) LTD.**

**Needle Industries v. Needle Industries Newey (India) Ltd.** is a landmark Indian judgment on oppression and mismanagement. In that case, minority shareholders alleged that the majority board had executed a series of transactions i.e. issuing shares at a discount, misapplying company funds, and excluding minority directors as to consolidate control. The Supreme Court found that oppression must be viewed as a “continuing wrong,” since each act formed part of a sustained course of prejudicial conduct. This “continuing nature” doctrine allowed the petition to succeed despite individual transactions occurring at different times. The judgment thereby shaped modern practice by confirming that relief under Sections 241–242 can be sought as long as oppressive or mismanaged conditions persist, even if some actions predate the statutory period.

### **LIMITATION ACT AND OPPRESSION AND MISMANAGEMENT**

The Limitation Act, 1963, through its residuary Article 137<sup>9</sup>, prescribes a three-year limitation period for filing petitions under Sections 241–242 of the Companies Act, 2013, which address corporate oppression and mismanagement. Sections 241–242 empower the National Company Law Tribunal (NCLT) to entertain complaints by members alleging oppressive or prejudicial management conduct and to grant relief such as regulating company affairs, directing share transfers, or ordering restructurings.

Article 137 establishes that this three-year period begins when the cause of action accrues namely, when the oppressive or mismanagement act occurs or is discovered by the claimant. Being a residuary provision, Article 137 fills gaps in special statutes lacking specific limitation periods, thereby linking corporate petitions to the general law of limitation. If a petition is filed beyond this time period without justification, it may be dismissed as time-barred, illustrating the need for members to act prompt upon the detection of ongoing or cumulative wrongful acts by the majority within their companies

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<sup>9</sup> The Limitation Act, 1963, Art. 137 (India)

## **EVOLUTION OF LEGAL POSITION ON THE APPLICABILITY OF LIMITATION AS A BAR TO OPPRESSION AND MISMANAGEMENT**

The Limitation Act, 1963, via Article 137, initially had imposed a strict three-year cut-off on petitions under Sections 397<sup>10</sup>/398<sup>11</sup> of the Companies Act 1956 which is now Sections 241/242 of the Companies Act, 2013. The Calcutta High Court in the case of *Hungerford Investment Trust Ltd. v. Turner Morrison & Co.*<sup>12</sup> (1972) held that events older than three years must be excluded in any Oppression and Mismanagement matter. However, a little while later, the same court in *In Re Sindhri Iron Foundry (P.) Ltd.*<sup>13</sup> (1964) found that a singular wrongful act with ongoing effects could justify intervention, even if the act itself was time-barred.

Case	Court & Year	Finding
Turner Morrison & Co. Ltd. v. Hungerford Investment Trust Ltd.	Calcutta High Court, 1972	Held that under Article 137, events occurring more than three years before filing cannot be examined in Section 397/398 petitions—applying a strict three-year limitation bar.
In re Sindhri Iron Foundry (P.) Ltd.	Calcutta High Court, 1964	Recognized that a single wrongful act may still be actionable if its effects constitute a continuing course of oppression, thus keeping the cause of action alive.
Needle Industries (India) Ltd. v. Needle Industries Newey (India) Holding Ltd.	Supreme Court of India, 1981	Established that a series of related oppressive acts can be treated as one transaction of oppression, mandating consideration of continuous conduct rather than isolated acts.

<sup>10</sup> Companies Act, 1956, § 397

<sup>11</sup> Companies Act, 1956, § 398

<sup>12</sup> ILR (1972) 1 Cal 286 (India)

<sup>13</sup> (1964) ILR 1 Cal 214 (India).



Mahendra Singh Mewar v. Lake Palace Hotels & Motels Pvt. Ltd. <sup>14</sup>	Company Law Board (New Delhi), 1997	Held that the plea of limitation does not arise in CLB oppression/mismanagement proceedings, preventing delay from defeating substantive relief.
Smt. Yogeshwari Kumari & Ors. v. Lake Shore Palace Hotels Pvt. Ltd. <sup>15</sup>	Rajasthan High Court, 1995	Affirmed that acts older than three years remain examinable if they form a continuous course of oppression up to the petition date.

The Indian Judiciary also had 2 other major judgements that gave clarity on this proposition of law.

#### **A. Kalyani v. Vale Exports P. Ltd.<sup>16</sup>**

In this case, the petitioner, A. Kalyani, who originally held 26 per cent of the company's shares, alleged that she was deliberately excluded from the management and affairs of the company. She contended that her shareholding was unlawfully reduced to 3.4 per cent through illegal allotment of shares to respondents Nos. 2 to 4, and that respondents Nos. 3 and 4 were improperly inducted onto the board. Sri Seshadri, appearing for the petitioner, relied on the decision in Mahendra Singh Mewar v. Lake Palace Hotels and Motels P. Ltd., to argue that the plea of limitation is inapplicable to proceedings under Sections 397 and 398, as the Company Law Board exercises equitable jurisdiction in such matters. The respondents, however, contended that the petition was barred by limitation and marred by laches, relying on Article 137 of the Limitation Act, 1963. The Company Law Board, before delving into the merits, dealt with the limitation issue and reaffirmed its consistent position that limitation does not apply to Section 397/398 proceedings. It reiterated that in the exercise of equitable jurisdiction, the board cannot refuse relief merely on the ground of delay, particularly when the acts complained of are part of a continuous oppressive course of conduct. Consequently, the plea of limitation raised by the respondents was rejected, and the petition was held to be maintainable for

<sup>14</sup> (1997) 4 Comp LJ 440 (India)

<sup>15</sup> (1995) 82 Comp Cas 428 (India)

<sup>16</sup> 2002 SCC OnLine CLB 17; (2004) 119 Comp Cas 974 (CLB); (2003) 52 CLA 141

consideration on merits.

**Surinder Singh Bindra v. Hindustan Fasteners (P.) Ltd.<sup>17</sup>**

In this case, the petitioners, led by Surinder Singh Bindra, approached the Delhi High Court under Sections 397 and 398 of the Companies Act, 1956, claiming oppression and mismanagement by the company's majority shareholders and directors. The respondents objected, arguing that the petition was barred by limitation because many of the wrongful acts alleged by the petitioners had taken place more than three years before the case was filed. Justice D.P. Wadhwa, in this case, had to decide whether events that happened more than three years before the petition could still be considered. Justice Wadhwa acknowledged that while Article 137 of the Limitation Act, 1963 sets a three-year time limit for certain kinds of legal actions, technically applied to petitions under Sections 397 and 398 of the Companies Act, 1956. However, he did not believe this was applicable to the full story of the case.

The court went on to explain that if the earlier events formed part of a continuous course of oppressive or mismanaged conduct, continuing up to the date of the petition, they can still be considered by the court. In simple, if the wrongdoings weren't isolated incidents but part of an ongoing situation that harmed the interests of some shareholders or the company itself, they couldn't be ignored just for the mere reason that they started more than three years ago. Justice Wadhwa likened this to a 'continuing cause of action' — where even a single wrongful act, if it created a lasting oppressive effect, could support a fresh claim as long as its effects continued. As a result, the court rejected the respondents' objection regarding limitation and allowed the case to proceed. The judgment helped in clarifying that the mere difference existence of limitation provision cannot take away the power of the court to hear matters for equitable nature and the contentions against the maintainability of the petition, on the same grounds also, did not hold.

**Emerald Realtors Pvt. Ltd. v. Mack Star Marketing Pvt. Ltd. & Ors.<sup>18</sup>**

The Petitioners, Emerald Realtors Pvt. Ltd., and Satyam Realtors Pvt. Ltd., filed a petition under Sections 241–242 of the Companies Act, 2013 alleging oppression and mismanagement against Mack Star Marketing Pvt. Ltd. The Petitioners claimed that the Respondents engaged

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<sup>17</sup> 1989 SCC OnLine Del 197: AIR 1990 Del 32: (1990) 69 Comp Cas 718

<sup>18</sup> Emerald Realtors Private Limited v. Mack Star Marketing Private Limited & Ors., CA 315/2023 in CP No.112/MB-IV/2023, Order dated August 25, 2023, NCLT Mumbai Bench- IV (India)

in oppressive conduct and mismanaged the affairs of the company, affecting their shareholding rights and interest. On the issue of limitation, Respondents had objected to the maintainability of the petition, arguing that it was time-barred under Article 137 of the Limitation Act, 1963, which prescribes a three-year limitation period from the date the cause of action arises. The National Company Law Tribunal (NCLT) agreed with this contention and reaffirmed the settled position that while oppression and mismanagement claims are governed by limitation, the doctrine of "continuing cause of action" can extend the limitation if there is a continuing pattern of wrongful conduct.

### **Conclusion:**

The question of whether the Limitation Act applies to oppression and mismanagement cases is complex. Technically, Article 137 sets a three-year time limit for filing such cases. However, courts and tribunals have often accepted that if the unfair or harmful conduct is part of an ongoing pattern, older incidents can still be looked at. Under Sections 241–242 of the Companies Act, 2013, the tribunal has the power to go beyond strict time limits to deal with situations where continuous or repeated wrongdoing affects the company or its minority shareholders, helping protect fairness and rights within companies.

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