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## ***ABOUT US***

WHITE BLACK LEGAL is an open access, peer-reviewed and refereed journal provide dedicated 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

# **TATA CONSULTANCY SERVICES LTD V. CYRUS INVESTMENT PVT.LIMITED**

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## **ABSTRACT**

### **FACTUAL BACKGROUND OF THE CASE**

In 2012 Cyrus Misty was appointed as the executive chairman of TATA GROUPS succeeding Ratan Tata. Misty belongs to family of SP group who is the largest minority shareholder holding 18.4% of the shares of TATA GROUP. But this high profile legal war in the corporate world began when Misty was demoted as director from the position of executive chairman. He then along with his family firm filed a suit against the TATA company accusing mismanagement, oppression of minority shareholder and having a poor corporate governance system.

Initially there was no problems with leadership under Misty, but soon things began to change finally him losing the position due to loss of confidence in the boardroom vote. The board was not satisfied with the leadership as well as the management styles of him, the board stated the reason of “growing trust deficit”. The case finally conclude in Supreme court after going through different forums like National company law tribunal(hereinafter called as NCLT),National company law appellate tribunal(hereinafter called as NCLAT),NCLT, in 2018,made a decision in favour of TATA stating no unlawful removal neither oppression nor mismanagement from the part of the company, contrary to this NCLAT reversed the decision stating the removal as illegal, reinstated misty as executive chairman and considering TATA as a private company unlawful.

### **ISSUES BEFORE LAW**

- 1) Was Mr. Mistry's removal as Executive Chairman and later as director of the company unfair or harmful to the company's interests?

- 2) Are the Articles of Association of Tata Sons actually repressive because they let the Tata Trusts, especially Sir Ratan Tata Trust and Sir Dorabjee Tata Trust, keep control over the company, and were they misused by Mr. Ratan Tata?
- 3) Was Mr. Ratan Tata's constant interference in the company's affairs harmful to the company's interests?
- 4) Was the manufacturing of the Tata Nano, which ended up being a failed project carried out by Tata Motors because Mr. Ratan Tata pushed for it, bad for the company?
- 5) Did Tata Steel's acquisition of Corus Group in 2006 harm the company or the interests of the petitioners?
- 6) Were the business deals made with Siva Group Companies by Mr. Tata damaging to Tata Sons and its business operations?
- 7) Did the activities in Air Asia India (P) Ltd constitute harmful behavior against the company's interests and the public?
- 8) Was the company's move to change its status from public to private under Section 14, without updating relevant articles in the Articles of Association, oppressive or harmful to the petitioner's interests?
- 9) Did the removal of Cyrus Mistry comply with the terms of his employment contract, and were any contractual obligations breached during this process?

### **ARGUMENTS BY PARTIES**

#### **RESPONDENT**

- The removal of Mistry from executive chairman was unlawful and arbitrary shaking the fundamental concepts of corporate governance doubting the fairness, accountability and integrity of TATA company
- It was found that Article 75 under Tata Sons' Article of association are oppressive vesting excessive powers in Sir Ratan Tata Trust and Sir Dorabji Tata Trust, having inordinate influence company's decision making process
- There was excessive involvement beyond reasonable bounds by Mr Ratan Tata and Mr Noshir Sonawala.
- The petitioner condemned 'Nano Car Project' of Tata motors because of its financial unsustainability, the project incurred losses of more than 1000 crores. This was completely irrational business decision. Similarly in acquisition of Corus by Tata steel limited exceeded the initial offer by 33%.

- The respondent also pointed out extraordinary general meeting for Misty's removal, it was beyond the company's legal authority.
- Respondent alleged that under the influence of Mr Tata's actions indirectly financing terrorism.
- It was further highlighted that Tata sons engaged in practices that undermined the independence and role of directors in its listed companies, referring the incident of removal of Mr. Nusli Wadia, chairman of Bombay dyeing due to its support for Mr Misty
- Ratan Tata didn't hold any formal executive role in these companies despite of this confidential materials were routinely shared with Mr Ratan Tata, thus amounting to violation of Securities And Exchange Board of India (SEBI)(Prohibition of Insider Trading)Regulations 2015.
- The petitioners accused Mr Tata of maintaining close ties with Siva and Sterling group companies leading to leakage of confidential board decisions. It was also argued that Ratan Tata had initially entrusted Mr misty with critical company contracts trusting in Misty's leadership subsequently such trust had jeopardised the company's interest.

### **PETITIONER**

- The petitioners characterised the petition being motivated by his personal resentment with regard to his removal as chairman rather than legitimate claims. The company dismissed the accusation as a means to tarnish the company's reputation. The Board has within its rights to remove him.
- Misty has shown reluctance in capital allocation, disregarded Articles of Association provisions which ultimately lead to the board losing confidence in him.
- Tata also enhanced that Misty made a reckless decision by approving Tata power renewable energy limited's acquisition of Welspun renewable energy ltd when the company already had a debt of 4000 crore and unresolved tariff issues further Mr Misty failed to consult the board before funding acquisition.
- The company and its principal stakeholders emphasized they reiterated their confidence in the leadership of Mr. Ratan Tata, under whose chairmanship Tata Sons' valuation had increased nearly fivefold between 1991 and 2012. Petitioner also clarified that although Mr. Tata no longer held a formal directorial role, he was regularly invited as a special permanent guest at board meetings, was occasionally invited as a permanent

special guest at board meetings, where attendance was not mandatory and guidance was sought only at the discretion of the board.

- While Addressing the allegation of arbitrariness in the Articles of Association, the petitioners like to point out that shareholders approved the resolution enabling the Tata Trusts to nominate one-third of the board, reflecting their significant 40% equity stake. Mr. Mistry himself supported the decision of the resolution originally requiring unanimity among directors appointed under Article 140B for major decisions, but was subsequently revised to allow majority votes contradicting his present objections.

- The company has noted the lack of clarity of vision and an enthusiasm for growth in Mr. Mistry's leadership style, he also departed from long-standing corporate practices which ultimately lead weakened communication and cohesion across the group.
- It is being emphasized that the amendments to the Articles of Association, now under challenge, had previously been endorsed by both Mr. Pallonji Mistry (Cyrus Mistry's father) and Mr. Mistry himself, and had remained uncontested until his removal as Chairman.
- With respect to the Corus Group acquisition it has elevated Tata Steel to the position of the world's 6<sup>th</sup> largest steel producer being a landmark transaction. The continuation of the Nano Car Project was an ambitious venture aimed at transforming the Indian passenger vehicle market. The Siva Group had functioned as both a consultant and an equity investor in Tata Teleservices Limited.
- regarding allegations against Mr. Mehli Mistry, he has long-standing directorship at Tata Power since 2002 and emphasizing that the transactions in question had been approved by Mr. Cyrus Mistry himself. It further contended that most issues cited dated back to 1993–2008 and were raised only after Mr. Mistry's ouster, placing them beyond the NCLT's jurisdiction
- On the matter of Mr. Soonawala's alleged interference, the company clarified that he had long held key roles at Tata Sons, serving as Finance Director, Vice Chairman, and Financial Advisor, and was previously consulted by Mr. Mistry himself on financial issues.
- It is affirmed that Mr. Mistry's removal complied with the Companies Act, 2013, and i the decision was justified, lawful, and not indicative of oppression or mismanagement.

## **JUDICIAL INTERPRETATION**

- It was held that the removal of a chairman, when carried out in accordance with the Articles of Association and there was no proof of oppression, mismanagement, or illegality, does not invite judicial interference under Sections 241 and 242 of the Companies Act, 2013.
- The Court further observed that minority shareholders do not enjoy an inherent right to board representation unless explicitly provided in the company's constitutional framework. Allegations of poor governance, strategic missteps, or internal disagreements, without more, cannot constitute a legal wrong; only conduct shown to be oppressive, prejudicial, or unlawful falls within judicial remedy.
- Emphasizing the primacy of the Articles of Association, the Court upheld shareholder-approved provisions, including veto powers granted to Tata Trusts, as valid expressions of governance unless inconsistent with law.
- The judgment reaffirmed that the authority of a company's board is grounded in the prerogatives of majority shareholders, subject only to the statutory safeguard against legal injury to the company or its members. In doing so, the Court drew a clear line between boardroom autonomy and minority protection, making the Articles of Association and company law the decisive standards for judicial review.

## **VERDICT**

The Supreme Court's final judgment in *Tata Consultancy Services Ltd v. Cyrus Investments Pvt. Ltd.* (2021) set aside the National Company Law Appellate Tribunal's (NCLAT) order that had restored Mr. Cyrus Mistry to his former position as Executive Chairman of Tata Sons. The Supreme Court held that the removal of Cyrus Mistry was not illegal and did not amount to oppression or mismanagement under Sections 241 and 242 of the Companies Act, 2013. The Court concluded that business and boardroom disagreements do not, on their own, constitute grounds for judicial intervention unless there is tangible evidence of unlawful conduct, mala fide, or statutory violation.<sup>1</sup>

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<sup>1</sup> *Tata Consultancy Services Ltd v. Cyrus Investment Pvt. Ltd.* (2021), available at: [https://api.sci.gov.in/supremecourt/2020/212/212\\_2020\\_31\\_1503\\_27229\\_Judgement\\_26-Mar-2021.pdf](https://api.sci.gov.in/supremecourt/2020/212/212_2020_31_1503_27229_Judgement_26-Mar-2021.pdf).

### **CRITICAL COMMENTS**

This case gained attention for different reasons, because it involved 2 global business tycoons, it is considered as one of the major cases that helped in development of corporate law. Also it has advanced the company law jurisprudence as the first case concerned with oppression and mismanagement. The decision of the supreme court is done with giving due respect to company law principles. If one look through the eyes of corporate governance, the contentions made by Misty regarding poor corporate governance is not well addressed as it should. This case has throw light on evolving concept of corporate governance in India. The matter has gone from lower tribunals to apex court finally giving a conclusive judgement. The legal battle persisted for 5 long years. The decision of the supreme court is right, and set a good preceden as TATA company and the stakeholders was in the right to remove Cyrus Misty as he clearly acted against the company's interests.

