The Indian Journal for Research in Law and Management

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Editor-in-Chief – Dr. Muktai Deb Chavan; Publisher – Alden Vas; ISSN: 2583-9896

TATA SONS V. CYRUS MISTRY (THE BOARDROOM WAR)

~Pranathi Rampu

THE STORY BEHIND

Mistry, who served as the sixth chairman of Tata Sons, was removed from his position in October 2016. He assumed the role in 2012 following Ratan Tata's retirement. Ratan Tata personally requested Mistry to step down due to the board's loss of confidence, but Mistry's refusal resulted in his removal via majority vote.

Cyrus Mistry, the former chairman of Tata Sons, is associated with Complainant Companies—Cyrus Investments Private Limited and Sterling Investment Corporation Private Limited—which are part of the Shapoorji Palloni Group, where Mistry holds a controlling interest. These companies collectively held around 2% of Tata Sons' issued share capital.

On October 24, 2016, Ratan Tata personally asked Mistry to resign, citing the board's lack of faith in him. When Mistry declined, a board meeting was convened, during which he was removed from his position as chairman. Seven out of nine directors voted for his replacement, while Farida Khambata abstained, and Mistry, being an interested director, was ineligible to vote. The decision to remove Mistry was not impulsive but a response to a series of events that eroded trust and confidence, necessitating prompt action.

Mistry contested his removal, alleging mismanagement and oppression of minority shareholders by the board. However, the National Company Law Tribunal (NCLT)[1] dismissed his petition. He subsequently appealed to the National Company Law Appellate Tribunal (NCLAT), which in 2018 reinstated him as the group's executive chairman. Tata Sons

[1] Cyrus Investment Private Limited and Ors. v.Tata Consultancy Services Limited, 2018 SCC OnLine NCLT 24460.

challenged this decision in the Supreme Court, which temporarily stayed the NCLAT order, questioning its validity.

The NCLAT order[2], issued on December 18, 2019, also invalidated Tata Sons' conversion into a private company. However, on March 26, 2021, the Supreme Court, led by Chief Justice SA Bobde, ruled that there was no evidence of oppression and mismanagement against Cyrus Mistry at Tata Sons.

KEY TAKEAWAYS

The Tata Sons board, predominantly controlled by Tata Sons itself, comprises four directors, three appointed by Tata Trusts, one finance director, and Cyrus Mistry as Chairman. In the case of a tied vote, the Chairman held a casting vote. Thus, if the three directors and the finance director wished to remove Mistry from the board, he would only need the support of one independent director to proceed, provided the other independent director abstained. Consequently, it was strategically important to strip Mistry of his chairmanship before removing him as a director.[3]

As Tata Sons was an unlisted public company, the Chairman lacked the statutory right to present his case or develop a defense strategy.

Mistry lodged a petition alleging oppression and mismanagement due to "prejudicial and oppressive" conduct by the company. However, the NCLT Mumbai Bench dismissed all charges against Tata Sons and deemed the board competent to oust Mistry as Chairman.

Dissatisfied with the NCLT's ruling, Mistry appealed to the NCLAT, which overturned the previous decision, declaring Mistry's removal as Tata Sons Chairman unlawful and ordering his reinstatement. Tata Sons then appealed to the Supreme Court.

[2] Cyrus Investment Private Limited and Ors. v.Tata Consultancy Services Limited, 2019 SCC OnLine NCLAT 858, ¶187.
[3] Jagadeesh M, TATA VS. MISTRY – CASE ANALYSIS, Article- RA Associates, March 18, 2020

In January 2020, the Supreme Court sided with Tata Group, halting the NCLAT's orders and endorsing Tata Sons' 2016 decision to remove Mistry from both his chairmanship and later his directorship. In 2021, the Supreme Court ruled in favor of Tata Sons.[4]

ANALYSIS OF SUPREME COURT JUDGMENT

The Supreme Court[5] judgment has 3 parts, and the judicial grounds shall also be analyzed simultaneously:

Question 1: Was the case fit to be qualified as a situation of 'Oppression and Mismanagement' under Section 241 of the Companies Act, 2013?

Reasoning: The Supreme Court meticulously analysed whether the circumstances surrounding Cyrus Mistry's removal met the criteria outlined in Section 241 of the Companies Act, 2013. It emphasized that for a case to qualify as a situation of 'Oppression and Mismanagement,' the actions leading to the removal of a chairman must demonstrate elements of oppression, mismanagement, or prejudicial behavior. These actions should be detrimental to the interests of the company, its members, or the public at large. In the absence of substantial evidence indicating such conduct, the Court concluded that the National Company Law Tribunal (NCLT) lacked the jurisdiction to intervene in the matter.

Question 2: Was the procedure followed for removal of Cyrus Mistry as Chairman and Director from the Company under the ambit of Companies Act, 2013?

Reasoning: The Supreme Court scrutinized the procedural aspects of Cyrus Mistry's removal as Chairman and Director within the framework of the Companies Act, 2013. It evaluated whether the procedures followed for his removal were in compliance with the provisions of the Act. The Court emphasized that for such removal to fall under the purview of Section 241, it must be demonstrated that the process was oppressive or prejudicial. Furthermore, the Court clarified that Sections 241 and 242 of the Companies Act, 2013, do not explicitly grant the National Company Law Appellate Tribunal (NCLAT) the authority to reinstate individuals. Thus, the Supreme Court overturned NCLAT's decision to reinstate Cyrus Mistry as executive chairman of Tata Sons.

Question 3: Is Article 75 from AOA of Tata Sons Oppressive?

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[4] Krishnadas Rajagopal, "Supreme Court backs Tata Sons, sets aside NCLAT order to reinstate Cyrus Mistry as chairman", The Hindu, March 26, 2021

[5] Tata Consultancy Services Limited v. Cyrus Investment Private Limited and Ors., 2021 SCC OnLine SC 272

Reasoning: The Court addressed the validity of Article 75 from the Articles of Association (AOA) of Tata Sons, which had been nullified by the NCLAT due to concerns regarding potential misuse. The Supreme Court analyzed whether the nullification of Article 75 was justified within the legal framework of the Companies Act, 2013. It clarified that Section 241 provides remedies only for past, present, or ongoing conduct, not for potential future misconduct. Therefore, the Court deemed NCLAT's extension of Section 241 to cover future misconduct legally impermissible. This highlighted the importance of adhering to the statutory provisions and ensuring that legal remedies are applied within their prescribed scope.

CONCLUSION

The case involving Mr. Cyrus Mistry drew considerable attention from its outset, highlighting corporate governance flaws and offering clarity on Section 241 of the Companies Act. Despite sympathetic grounds, Mistry faced legal hurdles, with his family's historical stance on Tata Sons' operations working against them. The verdict sparked debate on minority shareholder rights, emphasizing the need for agreements with majority shareholders. Both sides suffered reputational damage, and new questions on corporate governance principles emerged, awaiting future resolution.