



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

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CASE COMMENT- TATA CONSULTANCY SERVICES LIMITED V CYRUS INVESTMENTS PVT LTD

-Shubhangi Singh

INTRODUCTION

The corporate legal battle between Tata Sons Private Limited (Tata Sons) and the Shapoorji Pallonji Group, headed by Mr. Cyrus Mistry, gained widespread attention over the issue of leadership succession at Tata Sons Company¹. This case attracted public interest due to the issues of oppression and mismanagement under Sections 241² and 242 of the Companies Act, 2013³ and became the first case of shareholder oppression and mismanagement under the Companies Act, 2013 to reach the Supreme Court⁴. This dispute raised the issues of rights of minority shareholders rights and corporate governance

FACTS

Tata Trusts owns a 66% stake in Tata Sons and was then chaired by Ratan Tata. The Shapoorji Pallonji Group, which owns an 18.4% stake in the company, represented Cyrus Investments Private Limited and Sterling Investments Corp. Pvt. Ltd. Following Mr. Ratan Tata's retirement from the leadership role in 2012, Cyrus Mistry was appointed as the Executive Chairman with the backing of Ratan Tata himself.

However, on October 24, 2016, Mr. Mistry was abruptly removed as the Executive Chairman by the board of directors of Tata Sons. Following this, he was also forced to resign from the Boards of other Tata Group companies. The reasons that led to the ouster of Mr. Cyrus Mistry included his engagements with the Income Tax Authorities, unauthorised disclosure of confidential emails, and a different management style.

¹ Nabodita Gnaguly 'Tata-Cyrus Mistry feud: How the Desirable Successor Ended Up Being a Rival' (Outlook Business, 10 October 2024) <<https://www.outlookbusiness.com/explainers/tata-cyrus-mistry-feud-how-the-desirable-successor-ended-up-being-a-rival>> accessed 18 June 2025

² Companies Act, 2013

³ Companies Act, 2013

⁴ Umkanth Varottli 'Unpacking the Scope of Oppression, Prejudice and Mismanagement Under the Companies Act, 2013 (NUS Law, 2020) <https://law.nus.edu.sg/publications/unpacking-the-scope-of-oppression-prejudice-and-mismanagement-under-the-companies-act-2013/>> accessed 18 June 2025

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Mr. Mistry alleged that his removal was a strategic move by Tata Sons to reinforce its dominance over the company's governance and suppress dissent and concerns regarding various actions with ethical implications. Shortly after, Mr. Mistry's confidential communication with the directors of the company, questioning the governance concerns, was leaked to the media, causing widespread public and media uproar.

Following these events, Tata Sons released a press statement highlighting a drop in company share returns during Mr. Mistry's Tenure. This statement aimed to shed light on the company's performance under his leadership.

ISSUES OF THE CASE

1. Whether Mr. Mistry's removal as Executive Chairman and director of the company, an act of oppression under Section 241 of the Companies Act⁵.
2. Whether the provisions within Tata Sons' AOA granted disproportionate power to Tata Trusts and were they misused?
3. Whether Mr. Ratan Tata and Mr. Noshir Soonawala's involvement in the company's affairs interfered in the proper management?
4. Whether the Tata Nano project carried out under Mr. Ratan Tata's leadership turned out to be detrimental to the financial interests of the company?
5. Whether the acquisition of Corus Group by Tata Steel in 2006 negatively impacted the shareholders' interests?
6. Were the business transactions with Siva Group and Air Asia prejudicial and harmful to Tata Sons and its business operations?
7. Whether by Tata Sons' conversion from a public to a private company without revising its AOA unlawful?

CONTENTIONS OF THE PETITIONERS

The petitioners claimed that the removal of Mr. Mistry from the position of chairman of Tata Sons was oppressive and unlawful as it violated Articles 241 and 242 of the Companies Act 2013⁶, as well as the principles of fair governance and transparency.

Further, the petitioners stated that the Shapoorji Pallonji group had a long-standing mutual quasi-partnership relationship with Tata Sons. Mr. Mistry's removal violated that mutual understanding. It was contended by the petitioner that the AOA of Tata Sons was oppressive as it granted excessive authority to a few individuals, which resulted in their substantial influence over the company's decisions and affairs without proper board consultation.

The continued investment in the Nano Car project by the Tata Motors, which incurred losses exceeding Rs. 1,000, was criticized by the petitioners. It was reasoned that the emotional considerations tied to Mr. Tata's involvement in the project had prevented the officials from taking a rational decision. The petitioner further questioned the acquisition

⁵ Companies Act, 2013

⁶ Companies Act, 2013

of Corus Group by Tata Steel Limited, which was acquired for over USD 12 billion, an amount exceeding the original price by 33%

The petitioners alleged that the partnership of the group with Air Asia was established before Mr. Mistry took on the role and that the decision was imposed upon him. It was also alleged that Tata Sons' conversion from a public to a private company was done without proper procedures.

The petitioners claimed that sensitive information, including the board meeting decisions, was shared with Mr. Tata despite his holding any position in the company. This, they argued, violates the SEBI regulations on Prohibitions on Insider Trading (2015)⁷

They sought the reinstatement of Cyrus Mistry and sought minority safeguards⁸

CONTENTIONS OF THE RESPONDENTS

Tata Sons denied the claims of oppression and mismanagement under Sections 241 and 242 of the Companies Act, 2013, as it reasoned that the removal from a leadership position on valid grounds does not constitute oppression. In response to the allegations of financial misconduct, they claimed that Mr. Mistry was actively involved in the decision-making process of all the transactions.

It further stated that Tata Sons' conversion from a public to private company was approved by the Registrar of Companies and that it is not a quasi-partnership company but is rather governed by its Articles of Association. The company further contended that the allegations of the Articles of Association being arbitrary, as the amendments had already been approved by the shareholders, and Mr. Mistry had actively supported them.

The company stated that while Mr. Tata did not hold a formal board position, he was invited as a special permanent guest to the board on discretionary attendance, and the directors were free to take his guidance when needed.

The company further defended its acquisitions of Corus group, reasoning that it had helped position Tata Steel as the world number 6, the Nano Car Project, as it was an effort to revolutionize Indian passenger car market and further justified the partnership with Asian airlines as it has facilitated Tata's re-entry into the aviation industry.

THE LEGAL JOURNEY FORWARD

In November 2017, Mr. Mistry filed a petition before NCLT, Mumbai, on behalf of Cyrus Investments and Sterling Group, challenging Tata Sons' decision to convert into a private company from a public company.

⁷ Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015

⁸ Anu Raghunathan 'Legal Ruling Reinstates Ousted Tata Sons Chairman Cyrus Mistry' (Forbes, 19 December 2019) <https://www.forbes.com/sites/anuraghunathan/2019/12/19/legal-ruling-reinstates-ousted-tata-sons-chairman-cyrus-mistry/>>accessed 18 June 2025

However, NCLT on July 9, 2018, dismissed Mr. Mistry's petition and his claims on his unsubstantiated allegations of misconduct and further noted that the company's transition from a public to a private company was legally valid.

The tribunal further held that his removal was due to the increasing lack of confidence in his leadership and his engagement in discussions with tax authorities. It was further ruled that Mr. Mistry's removal from the board of directors did not fall under Section 241 of the Companies Act, 2013, which deals with oppression and mismanagement.

The rest of the claims of Mr. Mistry were found to be short on merit. Further, the dealings with Siva Group, Air Asia, the acquisition of Corus group, and the Nano car project were said to be unsubstantiated under Section 241 or 242 of the Companies Act. Further, rejecting Mr. Mistry's claims of the AOA being prejudicial. The petition was dismissed in its entirety, and NCLT concluded that there was no oppression or mismanagement under sections 241 and 242, and further upheld the authority of the board and the shareholders.

NCLAT's DECISION

Unsatisfied with the NCLT's decision. Mr Cyrus Mistry decided to challenge the judgment before the NCLAT.

On December 18, 2019, the NCLAT overturned NCLT's order and passed its ruling in favour of the petitioners, reasoning that the actions of Tata Sons as oppressive and prejudicial under Sections 241 and 242 of the Companies Act, 2013.

The NCLAT ruled that the removal of Cyrus Mistry from his position of Executive Chairman and Board of Directors as illegal and oppressive and that the actions of Tata Sons were conducted in a manner that was oppressive to minority shareholders because of the instances of misgovernance and maladministration taking place in the company with Tata Trusts and Mr. Ratan Tata exerting undue influence through nominee directors.

It further ruled that the conversion of Tata Sons from a public to a private company was unlawful because the required approvals were not properly obtained. The NCLAT ordered the reinstatement of Cyrus Mistry as executive chairman of Tata Sons and as a director on the boards of Tata Group companies for the remainder of his term

SUPREME COURT

In January 2020, Tata Sons appealed to the Supreme Court to set aside the order passed by the NCLAT.

It was reasoned by the Tata group that Mr. Mistry's reinstatement violated corporate democracy, on top of which Mr. Mistry had never expressed his will for reinstatement at the end of his tenure.

The Supreme Court on 26 March 2021 set aside NCLAT's judgment and further iterated that the reinstatement of Mr. Mistry was beyond its jurisdiction

The Supreme Court ruled in favour of the Tata Group and upheld that the removal of an individual from the position of chairman does not fall under Section 241 of the Companies Act, as it was not carried out illegally and oppressively.

It further upheld Tata Sons' conversion to a private company as valid and lawful and further emphasized that courts could not interfere in business decisions taken by the majority unless oppressive or unlawful. Further clarifying that the minority shareholders could not claim special rights unless it had been expressly provided in the company's Articles of Association

CONCLUSION

The Supreme Court's decision in *Tata Sons v. Cyrus Mistry* is considered a landmark in Indian corporate law as it clarified the scope of Sections 241 and 242⁹. It upheld the principles of corporate governance and limited unnecessary judicial interventions in business decisions.

The ruling reinforced the importance of Articles of Association and minority shareholder rights and stills remains an important precedent on balancing corporate democracy with fair governance.

⁹ Companies Act, 2013