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\* **IN THE HIGH COURT OF DELHI AT NEW DELHI**

% *Date of Decision: 10<sup>th</sup> April, 2023*

+ CS(COMM) 561/2022

SANJAY MEHRA ..... Plaintiff

Through: Mr. Rajiv Nayar and Mr. Akhil Sibal, Senior Advocates with Mr. Manish Biala, Mr. Devesh Ratan, Ms. Asavari Jain, Ms. Sanya Kumar, Mr. Saurabh Seth and Ms. Manjira Dasgupta, Advocates.

versus

SHARAD MEHRA & ORS. .... Defendants

Through: Mr. Chander M. Lall, Senior Advocate with Mr. Ashutosh Kumar, Mr. Vinod Chauhan, Ms. Vrinda Bagaria, Mr. Munesh Kumar Sharma, Mr. L. Badri Narayan, Mr. Aditya Bhattacharya, Ms. Vindhya S. Mani, Mr. Kunal Arora, Mr. Archit Gupta, Ms. Ananya Chugh and Mr. Palash Maheshwari, Advocates for D-1 and 2.

Mr. Ashim Sood, Mr. Mayank Pandey, Mr. Ashish Kumar Pandey, Ms. Reaa Mehta, Mr. Kuberinder Bajaj and Mr. Velpula Audityaa, Advocates for D-3.

**CORAM:**  
**HON'BLE MS. JUSTICE JYOTI SINGH**

**JUDGEMENT**

**JYOTI SINGH, J.**

**I.A. 13127/2022 (under Sections 5 and 8 of Arbitration and Conciliation Act, by Defendant No. 1)**

1. Present suit has been filed by the Plaintiff for permanent injunction restraining the Defendants from using the word/mark SUPERON or any other deceptively similar or identical word/mark in any manner in India, whether as a trademark or trade name or corporate name or domain name on any product or packaging

including distributor's certificate, amounting to infringement of the registered trademarks of the Plaintiff as averred in the plaint as well as restraint against passing off, infringement of copyright etc.

2. Plaintiff is stated to be the proprietor of SUPERON and VAC-PAC family of trademarks, trade dresses and other Intellectual Property rights associated with the concerned goods under the said trademarks, in India. Plaintiff and Defendant No. 1 are brothers as also Directors of Defendant No. 3, which is a Company incorporated in the year 2004 and its Board of Directors is composed of Plaintiff and his family members as 50% shareholders on one hand and Defendant No. 1 and his family members as 50% shareholders on the other hand. Defendant No. 1 is also a Director of Defendant No. 2 Company, which operates and functions under the control of Defendant No. 1.

3. Be it noted that Defendants had appeared in the matter on caveat *albeit* Plaintiff had strongly contested the representation on behalf of Defendant No. 3 as being without authorization from the Company. Defendants No.1 and 2 filed an application under Sections 5 and 8 of the Arbitration and Conciliation Act, 1996 (hereinafter referred to as the '1996 Act') seeking reference of the parties to arbitration in view of Arbitration Clause 7.1 of the Memorandum of Family Settlement ('MOFS'), executed between the parties on 10.09.2021.

4. Extensive arguments were canvassed on behalf of the Plaintiff for grant of ad-interim injunction against the Defendants and succinctly put, the arguments were: (a) word SUPERON was coined by the Plaintiff in 2004 to be used as trademark, trade name and corporate name; (b) in the past, domestic business of Defendant No. 3 was handled by the Plaintiff while the overseas business was handled by Defendant No. 1; (c) in the year 2020, Plaintiff, Defendant No. 1 and their family members decided to formally and legally divide the

business of Defendant No. 3 and entered into several agreements including the MOFS dated 10.09.2021; (d) under the MOFS, Defendant No. 3 was to be demerged in accordance with the provisions of MOFS and the 'SM Group', which includes Plaintiff, his immediate family members and some companies on one side, was to take over the domestic business of Defendant No. 3 while the 'SDM Group' which includes Defendant No. 1, his immediate family members and some of his companies including Defendant No. 2 would take over the export business of Defendant No. 3; (e) Plaintiff and Defendant No. 1 decided that domestic business of Defendant No. 3 belonging to Plaintiff will be demerged into a new Company by the name of *Superon Schweisstechnik Industries Ltd.* only for conducting business in India while export business of Defendant No. 3 belonging to Defendant No. 1 would be renamed to *Superon Schweisstechnik Corporation Ltd.* and that neither shall use the aforesaid Company names with the word SUPERON in each other's territories; (f) Defendant No. 3, Plaintiff and Defendant No. 1 executed a Sale Deed dated 16.12.2021 superseding all previous agreements, arrangements, understandings etc. between the parties as per Clause 9.1 of the Deed and vide Clause 2.1, Defendant No. 3 sold and transferred absolutely and without any reservation full ownership and title of the Intellectual Properties of Defendant No. 3, as described in Schedule I thereof, along with all concomitant rights and interests attached thereto, including the entire associated business goodwill to Plaintiff and Defendant No. 1, as per the arrangement worked out under the Sale Deed; (g) as per the said arrangement Plaintiff became exclusive owner of the Intellectual Properties including the word SUPERON, VAC-PAC trademarks etc. within the territory of India while Defendant No. 1 became the exclusive owner for territories outside India, with a proscription that neither would have any rights in

each other's territories; and (h) to give effect to the terms of the Sale Deed, a Confirmatory Deed of Assignment dated 15.03.2022 was executed between Defendant No. 3 as Assignor and Plaintiff as Assignee. Having become owner of the aforementioned trademarks in India, Plaintiff filed applications before the Trade Marks Registry to get himself registered as subsequent proprietor of the trademarks previously owned by Defendant No. 3 including SUPERON and VAC-PAC.

5. According to the Plaintiff, filing of the suit was triggered by the fact that in April, 2022, Plaintiff learnt from market sources that Defendant No. 2 had launched similar products in the market under the brand name STARBLAZE with an identical trade dress/colour scheme under the name of Defendant No. 3, without the knowledge or consent of the Plaintiff, who is the proprietor of the word SUPERON and has copyright in labels and trade dresses earlier owned by Defendant No. 3 in India. The impugned product did not mention the name of Defendant No. 2 anywhere on the packaging and was being sold with the name of Defendant No. 3 i.e. the word SUPERON in a prominent manner, to mislead the public and the same was in violation of the MOFS, Sale Deed and the Intellectual Property rights of the Plaintiff in India.

6. Relevant would it be to note that during the course of hearing, learned Senior Counsel for Defendants No. 1 and 2 (hereinafter referred to as the 'Defendants') brought forth that the alleged trade dress had been changed and Defendants were selling the product with packaging having different colour and trade dress. Learned Senior Counsels for the Plaintiff, on instructions, thereafter submitted that they had no objection either to the use of brand name STARBLAZE or to the changed trade dress, however, an injunction should be granted against the Defendants from selling the impugned products

bearing the name of Defendant No. 3 as a manufacturer on the packaging in India and they were free to sell the impugned product outside the territory of India.

7. Refuting the case of the Plaintiff that the Defendants were infringing Plaintiff's trademarks, copyright etc., it was vehemently contended that before proceeding to hear the arguments on the application under Order 39 Rules 1 and 2 CPC for interim injunction, the Court should decide the application filed by Defendant No. 1 under Sections 5 and 8 of 1996 Act. After hearing arguments on the sequencing of the two applications for the purpose of which one should be heard first and upon examining the provisions of Section 8 of 1996 Act as well as the past precedents on this issue, the Court passed an order on 30.08.2022, holding that the hearing of the application under Section 8 being I.A. 13127/2022 cannot be deferred to a date post the hearing of I.A. 12874/2022 for interim injunction. Accordingly, both applications were listed for hearing and parties were heard at length.

8. Defendant No. 1 seeks reference of the disputes arising in the present suit to arbitration in terms of arbitration Clause 7.1 of MOFS which is extracted hereunder, for ready reference:

***“7. GOVERNING LAW, DISPUTE RESOLUTION AND JURISDICTION***

*7.1 In the event of breach of any of the terms of this MoS, the non-defaulting Group shall notify the defaulting Group of such breach and the defaulting Group shall be required to remedy the breach to the satisfaction of the non-defaulting Group, within a period of 1 (one) week of the notice from the non-defaulting Party failing which, it shall be deemed that a dispute has arisen between the Parties. Such dispute shall be resolved by arbitration under the Indian Arbitration and Conciliation Act, 1996 as provided below:*

*(i) The arbitration tribunal shall consist of three (3) arbitrators. Each Party shall appoint one arbitrator within 30 days of the receipt of request for settlement of dispute by arbitration. The two appointed arbitrators shall within 30 days of their appointment, appoint a third arbitrator who shall act as presiding arbitrator. In case a Party fails to appoint an arbitrator within 30 days from the date of receipt of*

*request or the two appointed arbitrators fail to agree on third arbitrator within 30 days of their appointment, the appointment of arbitrator as the case may be, shall be made in accordance with the Indian Arbitration and Conciliation Act 1996.*

*(ii) The place of arbitration shall be Delhi. The language of the arbitration shall be English.*

*(iii) The arbitration 'tribunal's award shall be substantiated in writing. The arbitration tribunal shall also decide on the costs of proceedings and the allocation thereof.'"*

9. Learned Senior Counsel appearing on behalf of the Defendants submitted that Plaintiff is a signatory to MOFS and thus bound by its terms as also the Arbitration Clause contained therein. Both Plaintiff and Defendant No. 1, who are brothers and Directors of Defendant No. 3, decided in the year 2020 to divide the entire business of Superon India amongst themselves and their family members and pursuant thereto entered into several agreements to work out the modalities of the division. To facilitate the division as well as demerger of Defendant No. 3, the MOFS dated 10.09.2021 was executed and in furtherance thereof a Sale Deed. Vide the Sale Deed dated 16.12.2021 executed between Plaintiff, Defendant No. 1 and Defendant No. 3, the Intellectual Property rights of Defendant No. 3 were transferred to Plaintiff and Defendant No. 1. It is true that the Sale Deed does not have an arbitration clause, however, the MOFS which prescribes the manner of division of the business and facilitates the demerger of Superon India has an arbitration clause. MOFS itself contains provisions relating to transfer of trademark, trade name, copyright, logo and packaging design rights/restrictions in Clause 3.2(c) and contemplates execution of a Deed of Assignment governing the transfer of Intellectual Property rights of Defendant No. 3 and the same being annexed to the MOFS as Schedule V so as to form an integral part thereof. Therefore, as per the terms of MOFS, the Sale Deed which prescribes the modalities of such transfer is an integral part of the MOFS and Plaintiff's allegations of infringement as well as

breach of the terms of MOFS and Sale Deed are disputes arising 'out of' and 'in connection' with performance of the terms of MOFS and consequently, the subject matter of the suit is within the ambit of arbitration agreement contained therein.

10. It was urged that parties having unequivocally and unambiguously agreed to arbitration as a dispute resolution mechanism in the MOFS for breach of its covenants and obligations enumerated thereunder and cannot contest the reference. After the execution of the MOFS, rights of the parties to use the mark SUPERON are governed by the covenants and obligations mentioned therein and thus any dispute regarding its usage or infringement will also relate to the MOFS and the Sale Deed, executed in furtherance thereto and would be referable to arbitration. Plain reading of the averments in the plaint also fortify that the claims are entrenched in the covenants of the MOFS and therefore inextricably linked and connected to the arbitration clause therein. Reliance was placed on the judgments in *Vidya Drolia and Others v. Durga Trading Corporation, (2021) 2 SCC 1*; *Hero Electric Vehicles Private Limited and Another v. Lectro E-Mobility Private Limited and Another, 2021 SCC OnLine Del 1058*; *Sundaram Finance Limited and Another v. T. Thankam, (2015) 14 SCC 444* and *Hema Khattar and Another v. Shiv Khera, (2017) 7 SCC 716*.

11. It was contended that reliance of the Plaintiff on the Sale Deed to wriggle out of the Arbitration Agreement is misplaced. Parties consciously provided in the MOFS that both the groups were free to undertake any business as provided in the Deed of Assignment which was to contain and govern all terms and rights and liabilities of the parties as regards all intellectual properties and the Deed of Assignment after its execution was required to be annexed with the MOFS and form its integral part. Therefore, the Sale Deed is nothing

but the Deed contemplated by the parties in the MOFS itself and owes its birth as well as continuous existence to the MOFS and contains all particulars envisioned to form a Deed of Assignment. This understanding of the parties is evident from the fact that the two groups executed a Board Resolution which authorized the execution of the Sale Deed and this fact is recorded in the Sale Deed itself. Plaintiff acknowledged the fact that Sale Deed was executed in furtherance of the MOFS in his legal notices dated 20.05.2022 and 02.07.2022, contrary to the stand now adopted, which is impermissible. Plaintiff has concealed the NCLT petition filed on the same day as the suit wherein it was averred on an affidavit that the Sale Deed was in furtherance of MOFS and not in supersession.

12. Parties are bound by the covenants of the MOFS and it is clear from a reading of the plaint that the disputes raised allegedly arise out of breach of the terms of the MOFS and cannot be decided without reference to the MOFS and are thus amenable to resolution before an Arbitral Tribunal in terms of clause 7.1 of MOFS, applying the law laid down in *Vidya Drolia (supra); Renusagar Power Co. Ltd. v. General Electric Company and Another, (1984) 4 SCC 679* and other judgments on the subject. Once there is an arbitration agreement governing the parties, the matter must be referred for arbitration unless there is a “chalk and cheese” case of non-arbitrability. When an application is filed under Section 8 of the 1996 Act, the scope of judicial inquiry is extremely limited and the Court cannot entertain a suit so as to encroach on the territory of the Arbitral Tribunal.

13. Responding to the arguments on behalf of the Defendants learned Senior counsels on behalf of the Plaintiff contended that the application is wholly misconceived being premised on Clause 7.1 of MOFS dated 10.09.2021, which is an agreement between Plaintiff’s family members and group companies and Defendant No. 1’s family



members and group companies and consciously Defendant No. 3 is not a party to the MOFS. The arbitration clause, therefore, does not apply to Defendant No. 3 and cannot bind the Company. Pertinently, no application under Section 8 has been filed on behalf of Defendant No. 3. The reason and rationale in not making Defendant No. 3 a party to the MOFS was that the Company was the owner of the intellectual property and transferred its right to the Plaintiff and Defendant No. 1 by a Sale Deed which is a self-contained agreement and makes no reference to MOFS. Moreover, Clause 3.2 (c) of MOFS itself provides that Deed of Assignment shall 'alone' contain and govern all terms, conditions, rights and liabilities of the parties as regards all intellectual properties owned or held by the Company. The Sale Deed clearly and expressly supersedes all previous agreements/arrangements/ understandings between the parties.

14. It was further contended that even assuming that the subject matter of the present suit is partly covered under MOFS and partly by the Sale Deed, the subject matter of the suit cannot be bifurcated and therefore, only this Court has the jurisdiction to try the entire subject matter of the present suit. It cannot be overlooked that parties to MOFS expressly chose to refer disputes thereunder to arbitration, whereas parties to the Sale Deed chose taking recourse to the jurisdiction of Courts alone. These arguments were predicated on two-fold legal grounds. It was submitted that the Supreme Court in *Sukanya Holdings (P) Ltd. v. Jayesh H. Pandya and Another, (2003) 5 SCC 531* has held that there is no provision in the 1996 Act that when the subject matter of the suit includes subject matter of the Arbitration Agreement as well as other disputes, the matter is required to be referred to Arbitration. There is also no provision for splitting the causes of action and referring the subject matter of the suit to the Arbitrators. It was further held that there is no provision in the 1996

Act as to what is required to be done in a case where some parties to the suit are not parties to the Arbitration Agreement. The explicit language used in Section 8 is ‘in a matter which is the subject of an Arbitration Agreement’ and the suit should be in respect of ‘a matter’ which parties have agreed to refer and comes under the ambit of Arbitration Agreement. Where, however, a suit is commenced ‘as to a matter’ which lies outside the Arbitration Agreement and is also between some of the parties who are not parties to the Arbitration Agreement, there is no question of application of provisions of Section 8. The words ‘a matter’ indicate that the entire subject matter of the suit should be subject to Arbitration Agreement. It was further held that it would be difficult to give an interpretation to Section 8 under which bifurcation of the cause of action, that is to say the subject-matter of the suit or in some cases bifurcation of the suit between parties who are parties to the Arbitration Agreement and others, is possible. This would be laying down a totally new procedure not contemplated under the 1996 Act. If bifurcation of the subject matter of a suit was contemplated, the Legislature would have used appropriate language to permit such a course. Since there is no such indication in the language, it follows that bifurcation of the subject matter of an action brought before a Judicial Authority is not allowed.

15. In view of the said judgment, it was contended that in the present case, it cannot be said that the entire gamut of disputes raised in the suit are a subject matter of the Arbitration Agreement and secondly, Defendant No. 3 against whom relief is sought is not a party to the MOFS and therefore, is a non-party to the Arbitration Agreement, incorporated therein. In such a case, the parties cannot be referred to Arbitration as there cannot be a bifurcation of the subject matter of the suit and the suit ought to continue before this Court.

16. To support the contention, reliance was also placed on the judgment in *Calcom Cement India Limited and Another v. Binod Kumar Bawri*, 2016 SCC OnLine Gau 118, passed by the Guwahati High Court, more particularly, paragraphs 39 to 42 thereof. Predicating the argument on the said judgment, it was submitted that in the said case, the High Court relying on the case of *Sukanya Holdings (P) Ltd. (supra)*, held that the said judgment still holds the field and therefore, in order to succeed in getting a reference of the disputes raised under Sections 397, 398 read with 402 and 403 of the Companies Act to arbitration, the Applicant would be liable to show that the entire gamut of the dispute falls within the purview of the Arbitration Agreement apart from the other factors mentioned therein. The Court also held that there would be a heavy burden cast on the Applicants to show that the Arbitration Agreement would bind the non-signatories. No doubt, the High Court held that the objection to jurisdiction raised under Section 8 of the 1996 Act is required to be decided at the earliest point in time but there was nothing in the decision relied upon by the Applicants therein in the case of *Hindustan Petroleum Corpn. Ltd. v. Pinkcity Midway Petroleums*, (2003) 6 SCC 503, which laid down any binding proposition of law that the Court or the Judicial Authority would cease to have jurisdiction to pass any order in the main proceeding, once an application under Section 8 of the 1996 Act is filed.

17. It was further contended that under Section 7(5) of the 1996 Act, conscious acceptance of the arbitration clause from another document is required to be made by the parties as a part of their contract before the arbitration clause can be read. Sale Deed does not even make a reference to the MOFS, let alone incorporating the arbitration clause and instead expressly provides for the exclusive jurisdiction of the Delhi Courts with respect to any claim or matters

under the Sale Deed. Reliance is placed on the judgment in *M.R. Engineers and Contractors Private Limited v. Som Datt Builders Limited*, (2009) 7 SCC 696 on this aspect.

### ANALYSIS

18. Before embarking on the journey to decide if the parties can be referred to arbitration, it would be relevant to refer to Section 8(1) of the 1996 Act, as amended by Section 4(i) of the 2016 Amendment Act, which is as under:-

***“8. Power to refer parties to arbitration where there is an arbitration agreement.—***

*(1) A judicial authority, before which an action is brought in a matter which is the subject of an arbitration agreement shall, if a party to the arbitration agreement or any person claiming through or under him, so applies not later than the date of submitting his first statement on the substance of the dispute, then, notwithstanding any judgment, decree or order of the Supreme Court or any Court, refer the parties to arbitration unless it finds that prima facie no valid arbitration agreement exists.*

.....”

19. Insofar as question of scope and ambit of the jurisdiction of a Court while deciding an application under Section 8 of 1996 Act is concerned, the answer does not pose any challenge and in this context, I may usefully allude to the judgment in *Vidya Drolia (supra)*, where the Supreme Court held as follows:-

***“28. Another facet, not highlighted earlier, arises from the dictum in Sukanya Holdings (P) Ltd. v. Jayesh H. Pandya [Sukanya Holdings (P) Ltd. v. Jayesh H. Pandya, (2003) 5 SCC 531], a decision upholding rejection of an application under Section 8, on the ground that there is no provision in the Arbitration Act to bifurcate and divide the causes or parties, that is, the subject-matter of the suit/judicial proceedings, and parties to the arbitration agreement. The suit should be in respect of a “matter” which the parties have agreed to refer and which comes within the ambit of the arbitration agreement. The words “a matter”, it was interpreted, would indicate that the entire subject-matter of the suit should be subject to arbitration agreement. Bifurcation of subject-matter or causes of action in the suit is not permissible and contemplated. Similarly, the parties to the suit should be bound by the arbitration agreement, as there is no provision in the Arbitration Act to compel third persons who have not exercised the option to give up the right to have access to courts and be bound by the arbitration clause. This***

would violate party autonomy and consensual nature of arbitration. Bifurcation in such cases would result in a suit being divided into two parts, one being decided by the Arbitral Tribunal, and the other by the court or judicial authorities. This would defeat the entire purpose and inevitably delay the proceedings and increase cost of litigation, cause harassment and on occasions give rise to conflicting judgments and orders by two different fora. Cause of action in relation to the subject-matter relates to the scope of the arbitration agreement and whether the dispute can be resolved by arbitration. Second mandate relating to common parties exposits the inherent limitation of the arbitration process which is consensual and mutual, an aspect we would subsequently examine.

**29.** A two-Judge Bench in *Booz Allen & Hamilton Inc.*, while interpreting the dictum in *Sukanya Holdings (P) Ltd.*, had drawn a distinction between ambit and scope of judicial inquiry while deciding an application under Section 8(1) of the Arbitration Act which is filed in pending civil suit/judicial proceedings and an application for reference of the dispute to arbitration under Section 11 of the Arbitration Act. In *Booz Allen & Hamilton Inc.* it was observed : (SCC p. 545, para 32)

“32. The nature and scope of issues arising for consideration in an application under Section 11 of the Act for appointment of arbitrators, are far narrower than those arising in an application under Section 8 of the Act, seeking reference of the parties to a suit to arbitration. While considering an application under Section 11 of the Act, the Chief Justice or his designate would not embark upon an examination of the issue of “arbitrability” or appropriateness of adjudication by a private forum, once he finds that there was an arbitration agreement between or among the parties, and would leave the issue of arbitrability for the decision of the Arbitral Tribunal. If the arbitrator wrongly holds that the dispute is arbitrable, the aggrieved party will have to challenge the award by filing an application under Section 34 of the Act, relying upon sub-section (2)(b)(i) of that section.”

**30.** However, in *SBP & Co. v. Patel Engg. Ltd.* the majority judgment of the Constitution Bench of seven Judges had noticed the complementary nature of Sections 8 and 11 of the Arbitration Act, and has observed : (SCC p. 647, para 16)

“16. We may at this stage notice the complementary nature of Sections 8 and 11. Where there is an arbitration agreement between the parties and one of the parties, ignoring it, files an action before a judicial authority and the other party raises the objection that there is an arbitration clause, the judicial authority has to consider that objection and if the objection is found sustainable to refer the parties to arbitration. The expression used in this section is “shall” and this Court in *P. Anand Gajapathi Raju v. P.V.G. Raju* and in *Hindustan Petroleum Corpn. Ltd. v. Pinkcity Midway Petroleums* has held that the judicial authority is bound to refer the matter to arbitration once the existence of a valid arbitration clause is

*established. Thus, the judicial authority is entitled to, has to and is bound to decide the jurisdictional issue raised before it, before making or declining to make a reference. Section 11 only covers another situation. Where one of the parties has refused to act in terms of the arbitration agreement, the other party moves the Chief Justice under Section 11 of the Act to have an arbitrator appointed and the first party objects, it would be incongruous to hold that the Chief Justice cannot decide the question of his own jurisdiction to appoint an arbitrator when in a parallel situation, the judicial authority can do so. Obviously, the highest judicial authority has to decide that question and his competence to decide cannot be questioned. If it is held that the Chief Justice has no right or duty to decide the question or cannot decide the question, it will lead to an anomalous situation in that a judicial authority under Section 8 can decide, but not a Chief Justice under Section 11, though the nature of the objection is the same and the consequence of accepting the objection in one case and rejecting it in the other, is also the same, namely, sending the parties to arbitration. The interpretation of Section 11 that we have adopted would not give room for such an anomaly.”*

**31.** *We are clearly bound by the dictum of the Constitution Bench judgment in Patel Engg. Ltd. that the scope and ambit of court's jurisdiction under Section 8 or 11 of the Arbitration Act is similar. An application under Section 11 of the Arbitration Act need not set out in detail the disputes or the claims and may briefly refer to the subject-matter or broad contours of the dispute. However, where judicial proceedings are initiated and pending, specific details of the claims and disputes are normally pleaded and, therefore, the court or the judicial authority has the advantage of these details. There is a difference between a non-arbitrable claim and non-arbitrable subject-matter. Former may arise on account of scope of the arbitration agreement and also when the claim is not capable of being resolved through arbitration. Generally non-arbitrability of the subject-matter would relate to non-arbitrability in law. Further, the decision in Sukanya Holdings (P) Ltd. has to be read along with subsequent judgment of this Court in Chloro Controls (India) (P) Ltd. v. Severn Trent Water Purification Inc.*

**32.** *The effect of amendment by Act 3 of 2016 with retrospective effect from 20-10-2015 on Sections 8 and 11 of the Arbitration Act with the stipulation that the amendments apply notwithstanding any earlier judgment has been examined by us under the heading 'Who Decides Non-arbitrability'.*

**33.** *Sub-section (3) of Section 2 of the Arbitration Act states:*

*“2. (3) This Part shall not affect any other law for the time being in force by virtue of which certain disputes may not be submitted to arbitration.”*

*The Arbitration Act clearly recognises and accepts that certain disputes or subjects are not capable of being resolved by arbitration. Similarly, Section 34(2)(b)(i) of the Arbitration Act states that the*

*courts may set aside awards when they find that “the subject-matter of the dispute is not capable of settlement by arbitration”. However, the two sub-sections conspicuously do not enumerate or categorise non-arbitrable matters or state the principles for determining when a dispute is non-arbitrable by virtue of any other law for the time being in force. It is left to the courts by ex visceribus actus to formulate the principles for determining non-arbitrability. As, exclusion from arbitrability is predominantly a matter of case law, we begin by examining the case law on the subject.”*

20. The two aspects under consideration before the Supreme Court on a Reference were crystalized in para 2, as under:-

*“2. A deeper consideration of the order of reference reveals that the issues required to be answered relate to two aspects that are distinct and yet interconnected, namely:*

*2.1. (i) Meaning of non-arbitrability and when the subject-matter of the dispute is not capable of being resolved through arbitration.*

*2.2. (ii) The conundrum — “who decides” — whether the court at the reference stage or the Arbitral Tribunal in the arbitration proceedings would decide the question of non-arbitrability.*

*2.3. The second aspect also relates to the scope and ambit of jurisdiction of the court at the referral stage when an objection of non-arbitrability is raised to an application under Section 8 or 11 of the Arbitration and Conciliation Act, 1996 (for short “the Arbitration Act”).”*

21. The Supreme Court elucidated the principles that draw distinction between adjudication of actions in *rem* and actions in *personam*, as follows:-

*“46. Having examined and analysed the judgments, we would coalesce and crystalise the legal principles for determining non-arbitrability. We begin by drawing principles that draw distinction between adjudication of actions in rem and adjudication of actions in personam.*

*47. A judgment is a formal expression of conclusive adjudication of the rights and liabilities of the parties. The judgment may operate in two ways, in rem or in personam. Section 41 of the Evidence Act, 1872 on the question of relevancy of judgments in the context of conclusiveness of a judgment, order or decree provides:*

*“41. Relevancy of certain judgments in probate, etc. jurisdiction.—A final judgment, order or decree of a competent court, in the exercise of probate, matrimonial, admiralty or insolvency jurisdiction, which confers upon or takes away from any person any legal character, or which declares any person to be entitled to any such character, or to be entitled to any*

*specific thing, not as against any specified person but absolutely, is relevant when the existence of any such legal character, or the title of any such person to any such thing, is relevant.*

*Such judgment, order or decree is conclusive proof—*

*that any legal character, which it confers accrued at the time when such judgment, order or decree came into operation;*

*that any legal character, to which it declares any such person to be entitled, accrued to that person at the time when such judgment, order or decree declares it to have accrued to that person;*

*that any legal character which it takes away from any such person ceased at the time from which such judgment, order or decree declared that it had ceased or should cease;*

*and that anything to which it declares any person to be so entitled was the property of that person at the time from which such judgment, order or decree declares that it had been or should be his property.”*

48. A judgment in rem determines the status of a person or thing as distinct from the particular interest in it of a party to the litigation; and such a judgment is conclusive evidence for and against all persons whether parties, privies or strangers of the matter actually decided. Such a judgment “settles the destiny of the res itself” and binds all persons claiming an interest in the property inconsistent with the judgment even though pronounced in their absence. By contrast, a judgment in personam, “although it may concern a res, merely determines the rights of the litigants inter se to the res”. Distinction between judgments in rem and judgments in personam turns on their power as res judicata, i.e. judgment in rem would operate as res judicata against the world, and judgment in personam would operate as res judicata only against the parties in dispute. Use of expressions “rights in rem” and “rights in personam” may not be correct for determining non-arbitrability because of the interplay between rights in rem and rights in personam. Many a times, a right in rem results in an enforceable right in personam. Booz Allen & Hamilton Inc. refers to the statement by Mustill and Boyd that the subordinate rights in personam derived from rights in rem can be ruled upon by the arbitrators, which is apposite. Therefore, a claim for infringement of copyright against a particular person is arbitrable, though in some manner the arbitrator would examine the right to copyright, a right in rem. Arbitration by necessary implication excludes actions in rem.

49. Exclusion of actions in rem from arbitration, expositis the intrinsic limits of arbitration as a private dispute resolution mechanism, which is only binding on “the parties” to the arbitration agreement. The courts established by law on the other hand enjoy jurisdiction by default and do not require mutual agreement for conferring jurisdiction. The Arbitral Tribunals not being courts of law or established under the auspices of the State cannot act



*judicially so as to affect those who are not bound by the arbitration clause. Arbitration is unsuitable when it has erga omnes effect, that is, it affects the rights and liabilities of persons who are not bound by the arbitration agreement. Equally arbitration as a decentralised mode of dispute resolution is unsuitable when the subject-matter or a dispute in the factual background, requires collective adjudication before one court or forum. Certain disputes as a class, or sometimes the dispute in the given facts, can be efficiently resolved only through collective litigation proceedings. Contractual and consensual nature of arbitration underpins its ambit and scope. Authority and power being derived from an agreement cannot bind and is non-effective against non-signatories. An arbitration agreement between two or more parties would be limpid and inexpedient in situations when the subject-matter or dispute affects the rights and interests of third parties or without presence of others, an effective and enforceable award is not possible. Prime objective of arbitration to secure just, fair and effective resolution of disputes, without unnecessary delay and with least expense, is crippled and mutilated when the rights and liabilities of persons who have not consented to arbitration are affected or the collective resolution of the disputes by including non-parties is required. Arbitration agreement as an alternative to public fora should not be enforced when it is futile, ineffective, and would be a no result exercise.*

50. *Sovereign functions of the State being inalienable and non-delegable are nonarbitrable as the State alone has the exclusive right and duty to perform such functions. For example, it is generally accepted that monopoly rights can only be granted by the State. Correctness and validity of the State or sovereign functions cannot be made a direct subject-matter of a private adjudicatory process. Sovereign functions for the purpose of Arbitration Act would extend to exercise of executive power in different fields including commerce and economic, legislation in all forms, taxation, eminent domain and police powers which includes maintenance of law and order, internal security, grant of pardon, etc. as distinguished from commercial activities, economic adventures and welfare activities. Similarly, decisions and adjudicatory functions of the State that have public interest element like the legitimacy of marriage, citizenship, winding up of companies, grant of patents, etc. are non-arbitrable, unless the statute in relation to a regulatory or adjudicatory mechanism either expressly or by clear implication permits arbitration. In these matters the State enjoys monopoly in dispute resolution.”*

22. Thereafter, the Supreme Court propounded a ‘four-fold’ test for determining when the subject matter of a dispute in an arbitration agreement is non-arbitrable as under:-

“76. *In view of the above discussion, we would like to propound a fourfold test for determining when the subject-matter of a dispute in an arbitration agreement is not arbitrable:*

76.1. (1) *When cause of action and subject-matter of the dispute relates to actions in rem, that do not pertain to subordinate rights in personam that arise from rights in rem.*

76.2. (2) *When cause of action and subject-matter of the dispute affects third-party rights; have erga omnes effect; require centralised adjudication, and mutual adjudication would not be appropriate and enforceable.*

76.3. (3) *When cause of action and subject-matter of the dispute relates to inalienable sovereign and public interest functions of the State and hence mutual adjudication would be unenforceable.*

76.4. (4) *When the subject-matter of the dispute is expressly or by necessary implication non-arbitrable as per mandatory statute(s).*

76.5. *These tests are not watertight compartments; they dovetail and overlap, albeit when applied holistically and pragmatically will help and assist in determining and ascertaining with great degree of certainty when as per law in India, a dispute or subjectmatter is non-arbitrable. Only when the answer is affirmative that the subject-matter of the dispute would be non-arbitrable.*

76.6. *However, the aforesaid principles have to be applied with care and caution as observed in Olympus Superstructures (P) Ltd.: (SCC p. 669, para 35)*

*“35. ... Reference is made there to certain disputes like criminal offences of a public nature, disputes arising out of illegal agreements and disputes relating to status, such as divorce, which cannot be referred to arbitration. It has, however, been held that if in respect of facts relating to a criminal matter, say, physical injury, if there is a right to damages for personal injury, then such a dispute can be referred to arbitration (Keir v. Leeman ). Similarly, it has been held that a husband and a wife may refer to arbitration the terms on which they shall separate, because they can make a valid agreement between themselves on that matter (Soilleux v. Herbst, Wilson v. Wilson and Cahill v. Cahill ).”*

23. On the aspects of ‘who decides non-arbitrability’ and the ambit of the Court’s jurisdiction at reference stage, the Supreme Court held as follows:-

*“82. Issue of non-arbitrability can be raised at three stages. First, before the court on an application for reference under Section 11 or for stay of pending judicial proceedings and reference under Section 8 of the Arbitration Act; secondly, before the Arbitral Tribunal during the course of the arbitration proceedings; or thirdly, before the court at the stage of the challenge to the award or its enforcement. Therefore, the question — “Who decides non-arbitrability?” and, in particular, the jurisdiction of the court at the first look stage, that is, the referral stage.*

83. *Who decides the question of non-arbitrability? — a jurisdictional question is a technical legal issue, and requires clarity when applied to facts to avoid bootstrapping and confusion. The doubt as to who has the jurisdiction to decide could hinder, stray, and delay a many arbitration proceedings. Unfortunately, who decides non-arbitrability remains a vexed question that does not have a straightforward universal answer as would be apparent from opinions in the at-variance Indian case laws on this subject. To some extent, the answer depends on how much jurisdiction the enactment gives to the arbitrator to decide their own jurisdiction as well as the court's jurisdiction at the reference stage and in the post-award proceedings. It also depends upon the jurisdiction bestowed by the enactment viz. the facet of non-arbitrability in question, the scope of the arbitration agreement and authority conferred on the arbitrator.*

84. *Under the Arbitration Act, 1940, the jurisdiction to settle and decide non-arbitrability issues relating to existence, validity, scope as well as whether the subject-matter was capable of arbitration, with possible exception in case of termination, novation, frustration and “accord and satisfaction” when contested on facts, was determined and decided at the first or at the reference stage by the courts. The principle being that the court should be satisfied about the existence of a valid arbitration agreement and that the disputes have arisen with regard to the subject-matter of the arbitration agreement. At this stage, the court would be, however, not concerned with the merits or sustainability of the disputes. Despite best efforts to contain obstructive tactics, adjudication and final decision of non-arbitrability issues at the reference stage would invariably stop, derail and thwart the proceedings in the courts for years.*

85. *The Arbitration Act based upon the Uncitral Model Law introduced an entirely new regimen with the objective to promote arbitration in commercial and economic matters as an alternative dispute resolution mechanism that is fair, responsive and efficient to contemporary requirements. One of the primary objectives of the Arbitration Act is to reduce and minimise the supervisory role of courts. Accordingly, the statutory powers of the Arbitral Tribunal to deal with and decide jurisdictional issues of non-arbitrability were amplified and the principles of separation and competence-competence were incorporated, while the courts retained some power to have a “second look” in the post-award challenge proceeding. On the jurisdiction of the court at the referral stage, views of this Court have differed and there have been statutory amendments to modify and obliterate the legal effect of the court decisions.*

86. *The legal position as to who decides the question of non-arbitrability under the Arbitration Act can be divided into four phases. The first phase was from the enforcement of the Arbitration Act till the decision of the Constitution Bench of seven Judges in Patel Engg. Ltd. [SBP & Co. v. Patel Engg. Ltd., (2005) 8 SCC 618] on 26-10-2005. For nearly ten years, the ratio expressed in Konkan Railway Corpn. Ltd. v. Mehul Construction Co. [Konkan Railway Corpn. Ltd. v. Mehul Construction Co., (2000) 7 SCC 201] ,*

*affirmed by the Constitution Bench of five Judges in Konkan Railway Corpn. Ltd. v. Rani Construction (P) Ltd. [Konkan Railway Corpn. Ltd. v. Rani Construction (P) Ltd., (2002) 2 SCC 388] , had prevailed. The second phase commenced with the decision in Patel Engg. Ltd. [SBP & Co. v. Patel Engg. Ltd., (2005) 8 SCC 618] till the legislative amendments, which were made to substantially reduce court interference and overrule the legal effect of Patel Engg. Ltd. [SBP & Co. v. Patel Engg. Ltd., (2005) 8 SCC 618] vide Act 3 of 2016 with retrospective effect from 23-10-2015. The third phase commenced with effect from 23-10-2015 and continued till the enactment of Act 33 of 2019 with effect from 9-8-2019, from where commenced the fourth phase, with a clear intent to promote institutionalised arbitration rather than ad hoc arbitration. The amendments introduced by Act 33 of 2019 have been partially implemented and enforced. In the present case, we are primarily concerned with the legal position in the third phase with effect from 23-10-2015 when amendments by Act 3 of 2016 became operative.*

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103. *On the ambit of the court's jurisdiction at the reference stage, it was observed in Shin-Etsu case [Shin-Etsu Chemical Co. Ltd. v. Aksh Optifibre Ltd., (2005) 7 SCC 234] that the correct approach to the review of the arbitration agreement would be restricted to prima facie finding that there exists an arbitration agreement that is not null and void, inoperative or incapable of being performed. The key rationale for holding that the courts' review of the arbitration agreement should be limited to a prima facie standard is the principle of competence-competence. Further, were the courts are to be empowered to fully scrutinise the arbitration agreement an arbitral proceeding would have to be stayed until such time that the court seized of the matter renders a decision on the arbitration agreement. If the finding of the courts would be a final and determinative conclusion, then it is obvious that, until such a pronouncement is made, the arbitral proceedings would have to hang in abeyance. This evidently would defeat the credo and ethos of the Arbitration Act, which is to enable expeditious arbitration without avoidable intervention by the judicial authorities. As a result, the approach to be adopted at the reference stage is whether it is "plainly arguable" that the arbitration agreement is in existence. The judgment laid emphasis on the fact that the rule of priority in favour of the arbitrators is counterbalanced by the courts' power to review the existence and validity of the arbitration agreement at the end of the arbitral process. It was elucidated : (Shin-Etsu Chemical Co. Ltd. case [Shin-Etsu Chemical Co. Ltd. v. Aksh Optifibre Ltd., (2005) 7 SCC 234] , SCC pp. 267 & 277, paras 74-75 & 105)*

*"74. ... Even if the court takes the view that the arbitral agreement is not vitiated or that it is not invalid, inoperative or unenforceable, based upon purely a prima facie view, nothing prevents the arbitrator from trying the issue fully and rendering a final decision thereupon. ...*

75. ... Even after the court takes a prima facie view that the arbitration agreement is not vitiated on account of factors enumerated in Section 45, and the arbitrator upon a full trial holds that there is no vitiating factor in the arbitration agreement and makes an award, such an award can be challenged under Section 48(1)(a). The award will be set aside if the party against whom it is invoked satisfies the court inter alia that the agreement was not valid under the law to which the parties had subjected it or under the law of the country where the award was made. The two basic requirements, namely, expedition at the pre-reference stage, and a fair opportunity to contest the award after full trial, would be fully satisfied by interpreting Section 45 as enabling the court to act on a prima facie view.

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105. ... The object of the Act would be defeated if proceedings remain pending in the court even after commencing of the arbitration. It is precisely for this reason that I am inclined to the view that at the pre-reference stage contemplated by Section 45, the court is required to take only a prima facie view for making the reference, leaving the parties to a full trial either before the Arbitral Tribunal or before the court at the post-award stage.”

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106. In *Mayavati Trading (P) Ltd. v. Pradyut Deb Burman* [*Mayavati Trading (P) Ltd. v. Pradyut Deb Burman*, (2019) 8 SCC 714 : (2019) 4 SCC (Civ) 441], a three-Judge Bench has held that the legislature by inserting sub-section (6-A) to Section 11 and making amendments to Section 8 by Act 3 of 2016 has legislatively introduced a new regime so as to dilute and legislatively overrule the effect and ratio of the judgment of this Court in *Patel Engg. Ltd. [SBP & Co. v. Patel Engg. Ltd., (2005) 8 SCC 618]* Reliance was placed on paras 48 and 59 in *Duro Felguera, S.A. [Duro Felguera, S.A. v. Gangavaram Port Ltd., (2017) 9 SCC 729 : (2017) 4 SCC (Civ) 764]* The concluding paragraph in *Mayavati Trading (P) Ltd. [Mayavati Trading (P) Ltd. v. Pradyut Deb Burman, (2019) 8 SCC 714 : (2019) 4 SCC (Civ) 441]* records : (SCC pp. 724-25, para 10)

“10. This being the position, it is clear that the law prior to the 2015 Amendment that has been laid down by this Court, which would have included going into whether accord and satisfaction has taken place, has now been legislatively overruled. This being the position, it is difficult to agree with the reasoning contained in the aforesaid judgment [*United India Insurance Co. Ltd. v. Antique Art Exports (P) Ltd., (2019) 5 SCC 362 : (2019) 2 SCC (Civ) 785*], as Section 11(6-A) is confined to the examination of the existence of an arbitration agreement and is to be understood in the narrow sense as has been laid down in the judgment in *Duro Felguera, S.A. [Duro Felguera, S.A.*

*v. Gangavaram Port Ltd., (2017) 9 SCC 729 : (2017) 4 SCC (Civ) 764] ”*

*(emphasis in original)*

107. *Para 48 and para 59 of Duro Felguera, S.A. [Duro Felguera, S.A. v. Gangavaram Port Ltd., (2017) 9 SCC 729 : (2017) 4 SCC (Civ) 764] referred to above, read as under : (SCC pp. 759 & 765)*

*“48. ... From a reading of Section 11(6-A), the intention of the legislature is crystal clear i.e. the court should and need only look into one aspect—the existence of an arbitration agreement. What are the factors for deciding as to whether there is an arbitration agreement is the next question. The resolution to that is simple—it needs to be seen if the agreement contains a clause which provides for arbitration pertaining to the disputes which have arisen between the parties to the agreement.*

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*59. The scope of the power under Section 11(6) of the 1996 Act was considerably wide in view of the decisions in SBP & Co. [SBP & Co. v. Patel Engg. Ltd., (2005) 8 SCC 618] and Boghara Polyfab [National Insurance Co. Ltd. v. Boghara Polyfab (P) Ltd., (2009) 1 SCC 267 : (2009) 1 SCC (Civ) 117] . This position continued till the amendment brought about in 2015. After the amendment, all that the courts need to see is whether an arbitration agreement exists—nothing more, nothing less. The legislative policy and purpose is essentially to minimise the Court's intervention at the stage of appointing the arbitrator and this intention as incorporated in Section 11(6-A) ought to be respected.”*

108. *Dr D.Y. Chandrachud, J. in A. Ayyasamy [A. Ayyasamy v. A. Paramasivam, (2016) 10 SCC 386 : (2017) 1 SCC (Civ) 79] observed that Section 8 of the Arbitration Act has made a departure from Article 8 of Uncitral Model Law as the former uses the expression “judicial authority” rather than court and the words “unless it finds that the agreement is null and void, inoperative and incapable of being performed” mentioned in Article 8 do not find place in Section 8. Section 16 empowers the Arbitral Tribunal to rule upon its own jurisdiction, including the ruling with respect to the existence or validity of the arbitration agreement. Further clause (b) to Section 16(1) stipulates that a decision by an Arbitral Tribunal that the main contract is void, will not entail ipso jure the invalidity of the arbitration clause. The arbitration agreement survives for determining whether the contract in which the arbitration clause is embodied is null and void, which would include voidability.*

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129. *Principles of competence-competence have positive and negative connotations. As a positive implication, the Arbitral Tribunals are declared competent and authorised by law to rule as to their jurisdiction and decide non-arbitrability questions. In case of expressed negative effect, the statute would govern and should be*

*followed. Implied negative effect curtails and constrains interference by the court at the referral stage by necessary implication in order to allow the Arbitral Tribunal to rule as to their jurisdiction and decide non-arbitrability questions. As per the negative effect, courts at the referral stage are not to decide on merits, except when permitted by the legislation either expressly or by necessary implication, such questions of non-arbitrability. Such prioritisation of the Arbitral Tribunal over the courts can be partial and limited when the legislation provides for some or restricted scrutiny at the “first look” referral stage. We would, therefore, examine the principles of competence-competence with reference to the legislation, that is, the Arbitration Act.*

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132. *The courts at the referral stage do not perform ministerial functions. They exercise and perform judicial functions when they decide objections in terms of Sections 8 and 11 of the Arbitration Act. Section 8 prescribes the courts to refer the parties to arbitration, if the action brought is the subject of an arbitration agreement, unless it finds that prima facie no valid arbitration agreement exists. Examining the term “prima facie”, in *Nirmala J. Jhala v. State of Gujarat* [*Nirmala J. Jhala v. State of Gujarat*, (2013) 4 SCC 301 : (2013) 2 SCC (L&S) 270], this Court had noted : (SCC p. 320, para 48)*

*“48. ‘27. ... A prima facie case does not mean a case proved to the hilt but a case which can be said to be established if the evidence which is led in support of the case were [to be] believed. While determining whether a prima facie case had been made out or not the relevant consideration is whether on the evidence led it was possible to arrive at the conclusion in question and not whether that was the only conclusion which could be arrived at on that evidence.’ [Ed. : As observed in *Martin Burn Ltd. v. R.N. Banerjee*, AIR 1958 SC 79, p. 85, para 27.] ”*

133. *Prima facie case in the context of Section 8 is not to be confused with the merits of the case put up by the parties which has to be established before the Arbitral Tribunal. It is restricted to the subject-matter of the suit being prima facie arbitrable under a valid arbitration agreement. Prima facie case means that the assertions on these aspects are bona fide. When read with the principles of separation and competence-competence and Section 34 of the Arbitration Act, the referral court without getting bogged down would compel the parties to abide unless there are good and substantial reasons to the contrary.*

134. *Prima facie examination is not full review but a primary first review to weed out manifestly and ex facie non-existent and invalid arbitration agreements and non-arbitrable disputes. The prima facie review at the reference stage is to cut the deadwood and trim off the side branches in straightforward cases where dismissal is barefaced and pellucid and when on the facts and law the litigation must stop at the first stage. Only when the court is certain that no valid*

*arbitration agreement exists or the disputes/subject-matter are not arbitrable, the application under Section 8 would be rejected. At this stage, the court should not get lost in thickets and decide debatable questions of facts. Referral proceedings are preliminary and summary and not a mini trial. This necessarily reflects on the nature of the jurisdiction exercised by the court and in this context, the observations of B.N. Srikrishna, J. of “plainly arguable” case in Shin-Etsu Chemical Co. Ltd. [Shin-Etsu Chemical Co. Ltd. v. Aksh Optifibre Ltd., (2005) 7 SCC 234] are of importance and relevance. Similar views are expressed by this Court in Vimal Kishor Shah [Vimal Kishor Shah v. Jayesh Dinesh Shah, (2016) 8 SCC 788 : (2016) 4 SCC (Civ) 303] wherein the test applied at the pre-arbitration stage was whether there is a “good arguable case” for the existence of an arbitration agreement.*

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136. *Appropriate at this stage would be a reference to the judgment of the Delhi High Court in NCC Ltd. v. Indian Oil Corpn. Ltd. [NCC Ltd. v. Indian Oil Corpn. Ltd., 2019 SCC OnLine Del 6964] , wherein it has been held as under : (SCC OnLine Del paras 107-08)*

*“107. In my view, the scope of examination as to whether or not the claims lodged are Notified Claims has narrowed down considerably in view of the language of Section 11(6-A) of the 1996 Act. To my mind, once the Court is persuaded that it has jurisdiction to entertain a Section 11 petition all that is required to examine is as to whether or not an arbitration agreement exists between the parties which is relatable to the dispute at hand. The latter part of the exercise adverted to above, which involves correlating the dispute with the arbitration agreement obtaining between the parties, is an aspect which is implicitly embedded in sub-section (6-A) of Section 11 of the 1996 Act, which, otherwise, requires the Court to confine its examination only to the existence of the arbitration agreement. Therefore, if on a bare perusal of the agreement it is found that a particular dispute is not relatable to the arbitration agreement, then, perhaps, the Court may decline the relief sought for by a party in a Section 11 petition. However, if there is a contestation with regard to the issue as to whether the dispute falls within the realm of the arbitration agreement, then, the best course would be to allow the arbitrator to form a view in the matter.*

*108. Thus, unless it is in a manner of speech, a chalk and cheese situation or a black and white situation without shades of grey, the court concerned hearing Section 11 petition should follow the more conservative course of allowing parties to have their say before the Arbitral Tribunal.”*

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138. *In the Indian context, we would respectfully adopt the three categories in Boghara Polyfab (P) Ltd. [National Insurance Co. Ltd. v. Boghara Polyfab (P) Ltd., (2009) 1 SCC 267 : (2009) 1 SCC (Civ) 117] The first category of issues, namely, whether the party*



*has approached the appropriate High Court, whether there is an arbitration agreement and whether the party who has applied for reference is party to such agreement would be subject to more thorough examination in comparison to the second and third categories/issues which are presumptively, save in exceptional cases, for the arbitrator to decide. In the first category, we would add and include the question or issue relating to whether the cause of action relates to action in personam or rem; whether the subject-matter of the dispute affects third-party rights, have erga omnes effect, requires centralised adjudication; whether the subject-matter relates to inalienable sovereign and public interest functions of the State; and whether the subject-matter of dispute is expressly or by necessary implication non-arbitrable as per mandatory statute(s). Such questions arise rarely and, when they arise, are on most occasions questions of law. On the other hand, issues relating to contract formation, existence, validity and non-arbitrability would be connected and intertwined with the issues underlying the merits of the respective disputes/claims. They would be factual and disputed and for the Arbitral Tribunal to decide.*

139. *We would not like to be too prescriptive, albeit observe that the court may for legitimate reasons, to prevent wastage of public and private resources, can exercise judicial discretion to conduct an intense yet summary prima facie review while remaining conscious that it is to assist the arbitration procedure and not usurp jurisdiction of the Arbitral Tribunal. Undertaking a detailed full review or a long-drawn review at the referral stage would obstruct and cause delay undermining the integrity and efficacy of arbitration as a dispute resolution mechanism. Conversely, if the court becomes too reluctant to intervene, it may undermine effectiveness of both the arbitration and the court. There are certain cases where the prima facie examination may require a deeper consideration. The court's challenge is to find the right amount of and the context when it would examine the prima facie case or exercise restraint. The legal order needs a right balance between avoiding arbitration obstructing tactics at referral stage and protecting parties from being forced to arbitrate when the matter is clearly non-arbitrable. [Ozlem Susler, "The English Approach to Competence-Competence" Pepperdine Dispute Resolution Law Journal, 2013, Vol. 13.]*

140. *Accordingly, when it appears that prima facie review would be inconclusive, or on consideration inadequate as it requires detailed examination, the matter should be left for final determination by the Arbitral Tribunal selected by the parties by consent. The underlying rationale being not to delay or defer and to discourage parties from using referral proceeding as a ruse to delay and obstruct. In such cases a full review by the courts at this stage would encroach on the jurisdiction of the Arbitral Tribunal and violate the legislative scheme allocating jurisdiction between the courts and the Arbitral Tribunal. Centralisation of litigation with the Arbitral Tribunal as the primary and first adjudicator is beneficent as it helps in quicker and efficient resolution of disputes.*

141. *The court would exercise discretion and refer the disputes to arbitration when it is satisfied that the contest requires the Arbitral Tribunal should first decide the disputes and rule on non-arbitrability. Similarly, discretion should be exercised when the party opposing arbitration is adopting delaying tactics and impairing the referral proceedings. Appropriate in this regard, are observations of the Supreme Court of Canada in Dell Computer Corpn. v. Union des Consommateurs & Olivier Dumoulin [Dell Computer Corpn. v. Union des Consommateurs & Olivier Dumoulin, 2007 SCC OnLine Can SC 34 : (2007) 2 SCR 801 : 2007 SCC 34] , which read : (SCC OnLine Can SC paras 85-86)*

*“85. If the challenge requires the production and review of factual evidence, the court should normally refer the case to arbitration, as arbitrators have, for this purpose, the same resources and expertise as courts. Where questions of mixed law and fact are concerned, the court hearing the referral application must refer the case to arbitration unless the questions of fact require only superficial consideration of the documentary evidence in the record.*

*86. Before departing from the general rule of referral, the court must be satisfied that the challenge to the arbitrator's jurisdiction is not a delaying tactic and that it will not unduly impair the conduct of the arbitration proceeding. This means that even when considering one of the exceptions, the court might decide that to allow the arbitrator to rule first on his or her competence would be best for the arbitration process.”*

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*147.4. Most jurisdictions accept and require prima facie review by the court on non-arbitrability aspects at the referral stage.*

*147.5. Sections 8 and 11 of the Arbitration Act are complementary provisions as was held in Patel Engg. Ltd. [SBP & Co. v. Patel Engg. Ltd., (2005) 8 SCC 618] The object and purpose behind the two provisions is identical to compel and force parties to abide by their contractual understanding. This being so, the two provisions should be read as laying down similar standard and not as laying down different and separate parameters. Section 11 does not prescribe any standard of judicial review by the court for determining whether an arbitration agreement is in existence. Section 8 states that the judicial review at the stage of reference is prima facie and not final. Prima facie standard equally applies when the power of judicial review is exercised by the court under Section 11 of the Arbitration Act. Therefore, we can read the mandate of valid arbitration agreement in Section 8 into mandate of Section 11, that is, “existence of an arbitration agreement”.*

*147.6. Exercise of power of prima facie judicial review of existence as including validity is justified as a court is the first forum that examines and decides the request for the referral. Absolute “hands off” approach would be counterproductive and harm arbitration, as an alternative dispute resolution mechanism. Limited, yet effective*

*intervention is acceptable as it does not obstruct but effectuates arbitration.*

*147.7. Exercise of the limited prima facie review does not in any way interfere with the principle of competence-competence and separation as to obstruct arbitration proceedings but ensures that vexatious and frivolous matters get over at the initial stage.*

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*147.9. Even in Duro Felguera [Duro Felguera, S.A. v. Gangavaram Port Ltd., (2017) 9 SCC 729 : (2017) 4 SCC (Civ) 764] , Kurian Joseph, J., in para 52, had referred to Section 7(5) and thereafter in para 53 referred to a judgment of this Court in M.R. Engineers & Contractors (P) Ltd. v. Som Datt Builders Ltd. [M.R. Engineers & Contractors (P) Ltd. v. Som Datt Builders Ltd., (2009) 7 SCC 696 : (2009) 3 SCC (Civ) 271] to observe that the analysis in the said case supports the final conclusion that the memorandum of understanding in the said case did not incorporate an arbitration clause. Thereafter, reference was specifically made to Patel Engg. Ltd. [SBP & Co. v. Patel Engg. Ltd., (2005) 8 SCC 618] and Boghara Polyfab (P) Ltd. [National Insurance Co. Ltd. v. Boghara Polyfab (P) Ltd., (2009) 1 SCC 267 : (2009) 1 SCC (Civ) 117] to observe that the legislative policy is essential to minimise court's interference at the pre-arbitral stage and this was the intention of sub-section (6) to Section 11 of the Arbitration Act. Para 48 in Duro Felguera [Duro Felguera, S.A. v. Gangavaram Port Ltd., (2017) 9 SCC 729 : (2017) 4 SCC (Civ) 764] specifically states that the resolution has to exist in the arbitration agreement, and it is for the court to see if the agreement contains a clause which provides for arbitration of disputes which have arisen between the parties. Para 59 is more restrictive and requires the court to see whether an arbitration agreement exists — nothing more, nothing less. Read with the other findings, it would be appropriate to read the two paragraphs as laying down the legal ratio that the court is required to see if the underlying contract contains an arbitration clause for arbitration of the disputes which have arisen between the parties — nothing more, nothing less. Reference to decisions in Patel Engg. Ltd. [SBP & Co. v. Patel Engg. Ltd., (2005) 8 SCC 618] and Boghara Polyfab (P) Ltd. [National Insurance Co. Ltd. v. Boghara Polyfab (P) Ltd., (2009) 1 SCC 267 : (2009) 1 SCC (Civ) 117] was to highlight that at the reference stage, post the amendments vide Act 3 of 2016, the court would not go into and finally decide different aspects that were highlighted in the two decisions.*

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*147.11. The interpretation appropriately balances the allocation of the decision-making authority between the court at the referral stage and the arbitrators' primary jurisdiction to decide disputes on merits. The court as the judicial forum of the first instance can exercise prima facie test jurisdiction to screen and knock down ex facie meritless, frivolous and dishonest litigation. Limited jurisdiction of the courts ensures expeditious, alacritous and efficient disposal when required at the referral stage.*

153. Accordingly, we hold that the expression “existence of an arbitration agreement” in Section 11 of the Arbitration Act, would include aspect of validity of an arbitration agreement, albeit the court at the referral stage would apply the prima facie test on the basis of principles set out in this judgment. In cases of debatable and disputable facts, and good reasonable arguable case, etc., the court would force the parties to abide by the arbitration agreement as the Arbitral Tribunal has primary jurisdiction and authority to decide the disputes including the question of jurisdiction and non-arbitrability.

154. Discussion under the heading “**Who Decides Arbitrability?**” can be crystallised as under:

154.1. Ratio of the decision in *Patel Engg. Ltd. [SBP & Co. v. Patel Engg. Ltd., (2005) 8 SCC 618]* on the scope of judicial review by the court while deciding an application under Sections 8 or 11 of the Arbitration Act, post the amendments by Act 3 of 2016 (with retrospective effect from 23-10-2015) and even post the amendments vide Act 33 of 2019 (with effect from 9-8-2019), is no longer applicable.

154.2. Scope of judicial review and jurisdiction of the court under Sections 8 and 11 of the Arbitration Act is identical but extremely limited and restricted.

154.3. The general rule and principle, in view of the legislative mandate clear from Act 3 of 2016 and Act 33 of 2019, and the principle of severability and competence-competence, is that the Arbitral Tribunal is the preferred first authority to determine and decide all questions of non-arbitrability. The court has been conferred power of “second look” on aspects of non-arbitrability post the award in terms of sub-clauses (i), (ii) or (iv) of Section 34(2)(a) or sub-clause (i) of Section 34(2)(b) of the Arbitration Act.

154.4. Rarely as a demurrer the court may interfere at Section 8 or 11 stage when it is manifestly and ex facie certain that the arbitration agreement is non-existent, invalid or the disputes are non-arbitrable, though the nature and facet of non-arbitrability would, to some extent, determine the level and nature of judicial scrutiny. The restricted and limited review is to check and protect parties from being forced to arbitrate when the matter is demonstrably “non-arbitrable” and to cut off the deadwood. The court by default would refer the matter when contentions relating to non-arbitrability are plainly arguable; when consideration in summary proceedings would be insufficient and inconclusive; when facts are contested; when the party opposing arbitration adopts delaying tactics or impairs conduct of arbitration proceedings. This is not the stage for the court to enter into a mini trial or elaborate review so as to usurp the jurisdiction of the Arbitral Tribunal but to affirm and uphold integrity and efficacy of arbitration as an alternative dispute resolution mechanism.”

24. In the Supplementing Opinion, Justice N.V. Ramana held as follows:-

*“225. From a study of the above precedents, the following conclusion, with respect to adjudication of subject-matter arbitrability under Section 8 or 11 of the Act, are pertinent:*

*225.1. In line with the categories laid down by the earlier judgment of Boghara Polyfab, the courts were examining “subject-matter arbitrability” at the pre-arbitral stage, prior to the 2015 Amendment.*

*225.2. Post the 2015 Amendment, judicial interference at the reference stage has been substantially curtailed.*

*225.3. Although subject-matter arbitrability and public policy objections are provided separately under Section 34 of the Act, the courts herein have understood the same to be interchangeable under the Act. Further, subject-matter arbitrability is interlinked with in rem rights.*

*225.4. There are special classes of rights and privileges, which enure to the benefit of a citizen, by virtue of constitutional or legislative instrument, which may affect the arbitrability of a subject-matter.*

*226. It may be noted that the Act itself does not exclude any category of disputes as being non-arbitrable. However, the courts have used the “public policy” reason to restrict arbitration with respect to certain subject-matters. In line with the aforesaid proposition, the courts have interfered with the subject-matter arbitrability at the pre-reference stage.*

*227. However, post the 2015 Amendment, the structure of the Act was changed to bring it in tune with the pro-arbitration approach. Under the amended provision, the court can only give prima facie opinion on the existence of a valid arbitration agreement. In line with the amended language and the statutory scheme, the examination of the subject-matter arbitrability may not be appropriate at the stage of reference under Section 8 of the Arbitration Act. It is more appropriate to be taken up by the court at the stage of enforcement under Section 34 of the Act. Having said so, in clear cases where the subject-matter arbitrability is clearly barred, the court can cut the deadwood to preserve the efficacy of the arbitral process.*

*228. At this stage a word of caution needs to be said for arbitrators. They have been given jurisdiction to decide on the subject-matter arbitrability. They are required to identify specific public policy in order to determine the subject-matter arbitrability. Merely because a matter verges on a prohibited territory, should not by in itself stop the arbitrator from deciding the matter. He/she should be careful in considering the question of non-arbitrability.*

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244. Before we part, the conclusions reached, with respect to Question 1, are:

244.1. Sections 8 and 11 of the Act have the same ambit with respect to judicial interference.

244.2. Usually, subject-matter arbitrability cannot be decided at the stage of Section 8 or 11 of the Act, unless it is a clear case of deadwood.

244.3. The court, under Sections 8 and 11, has to refer a matter to arbitration or to appoint an arbitrator, as the case may be, unless a party has established a prima facie (summary findings) case of non-existence of valid arbitration agreement, by summarily portraying a strong case that he is entitled to such a finding.

244.4. The court should refer a matter if the validity of the arbitration agreement cannot be determined on a prima facie basis, as laid down above i.e. “when in doubt, do refer”.

244.5. The scope of the court to examine the prima facie validity of an arbitration agreement includes only:

244.5.1. Whether the arbitration agreement was in writing? Or

244.5.2. Whether the arbitration agreement was contained in exchange of letters, telecommunication, etc.?

244.5.3. Whether the core contractual ingredients qua the arbitration agreement were fulfilled?

244.5.4. On rare occasions, whether the subject-matter of dispute is arbitrable?”

25. Following the judgment of the Supreme Court in **Vidya Drolia** (*supra*), this Court in **Hero Electric Vehicles** (*supra*) culled out the following principles in the context of Section 8 of the 1996 Act:-

“41. The following clear principles emerge, from *Vidya Drolia*, insofar as Section 8 is concerned:

(v) Non-arbitrability may be said to exist

(a) where the cause of action, and the subject matter of the dispute, related to actions in rem, which do not pertain to subordinate rights in personam arising from rights in rem,

(b) where the cause of action and subject matter of the dispute affects third party rights, or has erga omnes effect, i.e. affects rights owed to all,

(c) where the cause of action and subject matter of the dispute require centralised adjudication, and for which mutual adjudication would not be appropriate or enforceable,

(d) where the cause of action and subject matter of the dispute relate to inalienable sovereign and public interest

*functions of the State, not amenable to adjudication by the arbitral process, or*

*(e) where the subject matter of the dispute is nonarbitrable by mandatory statutory fiat.*

*These principles are, however, not watertight, and have to be applied with care and caution.*

*(vi) Specific instances of non-arbitrable disputes are*

*(a) xxx xxx xxx*

*(b) xxx xxx xxx*

*(c) grant and issue of patents and registration of trademarks being exclusive matters falling within the sovereign or government function, having erga omnes effect, conferring monopoly rights.....*

*(vii) xxx xxx xxx*

*(viii) The scope of examination by the Court exercising jurisdiction under Section 8 or under Section 11, is prima facie in nature. The Court is not to enter into the merits of the case between the parties. It is only to examine whether the dispute is prima facie arbitrable under a valid arbitration agreement. This prima facie examination is intended to weed out manifestly and ex facie non-existent or invalid arbitration agreements or non-arbitrable disputes, thereby cutting the deadwood and trimming off the side branches, in cases where the litigation cannot be permitted to proceed. The proceedings are preliminary and summary in nature and should not result in a mini-trial. Unless there is a clear case of non-existence of a valid arbitration agreement, or of the dispute being ex facie non-arbitrable, tested on the above parameters, the court should leave these aspects to be decided by a competently constituted arbitral tribunal. Relegation to arbitration should be regarded as a rule, and resolution by the civil court, where a valid arbitration agreement exists and is sought to be invoked by one of the parties, as an exception. The expression “chalk and cheese situation”, as used by this Court has, in this background, been approved by the Supreme Court. “When in doubt” says Ramana, J., in his concurring opinion, “refer”. (Having said that, the “doubt”, in my view, has to be real and substantial, and not merely an escape route to avoid examining the issue in perspective.)”*

**26. In *Golden Tobie Private Limited (Formerly known as Golden Tobie Limited) v. Golden Tobacco Limited, 2021 SCC OnLine Del 3029*, this Court held as under:-**

*“15. It is clear that the aforementioned judgment of the co-ordinate Bench of this court applies on all fours to the facts of the present case. The court held that the dispute did not pertain to infringement*

*of a trademark on the ground that the defendants are using a deceptively similar trademark. The ground was that the right to use the trademark was conferred by a particular agreement on a particular group of the family. Even if the plaintiff in that case were to rely on any provisions of the Trademark Act the essential infraction as allegedly committed by the defendant was not the provisions of the Trademark Act but the provisions of the agreements in question. The dispute which emanates out of the agreement between the parties was held to be arbitrable. The court also clarified that the controversy in the said case did not relate to grant or registration of trademarks. The said trademarks stood granted and registered. It was also held that assignment of a trademark is by a contract and is not a statutory fiat. It does not involve any exercise of sovereign functions.*

16. *It is manifest from the facts of this case as narrated above that the dispute in question primarily relates to interpretation of the terms of the Agreement dated 12.02.2020 and the amendment agreement dated 29.08.2020 executed between the parties and as to whether the termination of the said agreements by the defendant and cancellation of the assignment of the trademark in favour of the plaintiffs is legal and valid. The right that is asserted by the plaintiff is not a right that emanates from the Trademark Act but a right that emanates from the Agreement dated 12.02.2020 and the amendment agreement dated 29.08.2020. The assignment of trademark is by a contract and not by a statutory act. It does not involve any exercise of sovereign functions of the State. It cannot be said that the disputes are not arbitrable. The pleas of learned senior counsel for the plaintiff are clearly without merit. The reasons spelt out by the plaintiff for not referring the matter to arbitration are misplaced and without merits.”*

27. Before proceeding further, it would be useful to refer to the judgment of this Court in ***Hero Electric Vehicles (supra)*** once again, as the facts of the said case are quite close to the present case and it would be relevant to extract the contentions raised therein by the Plaintiffs in response to the application filed by the Defendants under Section 8 of the 1996 Act, hereunder:-

*“44. The submissions of Mr. Sudhir Chandra are, essentially, that;*

*(i) the defendants have sought to challenge the scope of the registrations held by the plaintiffs, in respect of the “Hero” and “Hero Electric” trademarks, by contending that they do not extend to electric bicycles/e-cycles,*

*(ii) in respect thereof, what the defendant has essentially contended was that the expression “bicycles”, in respect of which the right to use the “Hero” and “Hero Electric”*



*trademarks was conferred on the F-4 Family Group (the defendants) encompassed, in its sweep, electric cycles/e-cycles,*

*(iii) as such, the challenge by the defendants required, for its adjudication, determination of the validity and sweep of the registrations held by the plaintiffs,*

*(iv) determination of this issue did not require the Court to refer to the FSA or TMNA, as the plaintiffs were relying on Section 7 of the Trade Marks Act, Rule 20 of the Trade Marks Rules, and the fact that Hero Exports was the registered proprietor of the trademark “Hero” for “electric bikes”, which expression would include electric bicycles,*

*(v) the decision of this Court on this controversy would, moreover, operate in rem, as it would confer an absolute right on the plaintiffs against the whole world, if decided in favour of the plaintiffs, and could not be regarded as adjudicating subordinate rights emanating out of rights in rem,*

*(vi) the decision of this Court would declare the scope of the trademark held by the plaintiffs, vis-à-vis the defendants, and the description of the goods covered thereby, and would operate as a decision in rem, not only against the defendants, but also against all third parties who may choose to infringe the said trademarks, and*

*(vii) the case of the plaintiffs being, therefore, purely one of infringement, by the defendants, of the trademarks held by the plaintiffs, it was not amenable to resolution by the arbitral process.”*

28. Relying on *Vidya Drolia (supra)*, the Court in *Hero Electric Vehicles (supra)*, observed as under:-

*“42. Criterion (viii) is, in my view, of pre-eminent significance. While examining the aspect of arbitrability of the dispute, or the existence of a valid arbitration agreement binding the parties, in exercise of its jurisdiction under Section 8, the Court has always to remain alive to the fact that it is exercising the very same jurisdiction which the Arbitral Tribunal is empowered to exercise. Court should not, therefore, exercise jurisdiction, under Section 8 or Section 11, qua these aspects, in such a manner, as would completely erode or efface the authority of Arbitral Tribunal to rule thereon. It is only, therefore, where the Court finds the case to be “chalk and cheese”, and where referring the matter to the arbitral process would be opposed to public interest or public policy, and a futility ex facie, that the Court should nip the request for referring the dispute to arbitration in the bud. Else, the authority of the Arbitral Tribunal to adjudicate on these aspects is required to be respected, given the raison d’ etre, and fundamental philosophy, of the 1996 Act.*

*43. In the present case, the existence of a valid arbitration agreement, between the parties, is not in dispute, to the extent that*

*Clauses 19.5 of the FSA and 5.6 of the TMNA provide for settlement of disputes, between or among the Family Groups, relating to the FSA and TMNA, by mediation, failing which by arbitration, in accordance with the 1996 Act. I am only required to examine, therefore, whether Mr. Sudhir Chandra has been able to make out a case which can convincingly discredit the request, by Mr. Sibal, to refer to the present dispute to arbitration, in accordance with the said covenants.*

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45. *I am unable to agree with Mr. Sudhir Chandra. As has been correctly pointed out by Mr. Sibal, the dispute, as raised by Mr. Sudhir Chandra's clients, is almost entirely centred around the FSA and TMNA. Though the prayer clause, in the suit, superficially read, seeks remedies against alleged infringement by the defendants, the infringement is alleged, not on the ground that the defendants are using deceptively similar trademarks, but on the ground that the right to use the trademarks, on electric cycles was conferred, by the FSA and TMNA, not on the F-4 group, but on the F-1 group. The reliance, by Mr. Sibal, on paras 19 to 25 of the plaint, is also well taken. The precise case set up by the plaintiff, in the said paras, is that the right to use the trademark "Hero" and its variants, which, prior to the execution of the FSA and the TMNA, vested in Hero Cycles, was transferred, by the FSA and the TMNA, to the F-1 group, insofar as electric cycles were concerned. In using the "Hero" trademark, on electric cycles and e-cycles, therefore, it was alleged that the F-4 group was infracting the covenants of the FSA and TMNA. Even if, in the process, the plaintiffs were to rely on any of the provisions of the Trade Marks Act, the essential infraction, as alleged to have been committed by the defendants, was not of the provisions of the Trade Marks Act, but of the provisions of the FSA and TMNA. As against this, the defendants rely on Articles 17.1 and 17.2 of the FSA and Article 3.7 of the TMNA, to dispute the claim of the plaintiffs. I am in agreement with Mr. Sibal that the dispute, as thus emerged between the plaintiffs and the defendants, required a holistic appreciation of the FSA and the TMNA, their various covenants, and the interplay thereof, in order to adjudicate on the rights conferred on the various family groups. Any effective adjudication of the disputes, without reference to the FSA and the TMNA would, in my view, be impossible.*

46. *All disputes arising "out of" or "in connection with" the FSA being amenable to arbitration under Clause 19.5 thereof, and all disputes arising "out of" or "in connection with" the TMNA being amenable to arbitration under Clause 5.6 thereof, the disputes between the parties before me are, prima facie, covered by these covenants. They are, therefore, ex facie arbitrable in nature, seen in the light of the provisions of the FSA and TMNA.*

47. *Mr. Sudhir Chandra seeks to contend, however, that, being in the nature of a determination of intellectual property rights, which would operate in rem, an arbitrator, acting in accordance with the provisions of the 1996 Act, could not decide the dispute. He submits, in this context, that rights relating to trademarks and patents are*

*among those which had specifically been held, by the Supreme Court, to be incapable of resolution by arbitration by their very nature, and has invited my attention to the observations, in that regard, as contained in Booz Allen and Ayyasamy.*

48. *Booz Allen and Ayyasamy have both been considered, comprehensively, in Vidya Drolia, which includes, among the categories of disputes which cannot be arbitrated upon, “grant and issue of patents and registration of trade marks”, as “they are exclusive matters falling within the sovereign or government functions”, having “erga omnes effect”, resulting in conferment of “monopoly rights”. The controversy, in the present case, does not relate to grant, or registration, of trademarks. The trademarks already stood granted, and registered, prior to the FSA and TMNA. The dispute is regarding the Family Group to which the rights to use the said trademarks, in connection with electric cycles and e-cycles has been assigned, by the FSA and TMNA. This assignment is by contractual, not statutory, fiat. It does not involve any exercise of sovereign functions (unless, of course, the patriarchs of the four Family Groups are, in a limited sense, to be regarded as “sovereigns”). In any event, no inalienable exercise of sovereign governmental functions can be said to be involved, in the assignment, to the various Family Groups, of their individual rights to use the existing trademarks, in respect of one, or the other, categories of goods. The dispute does not, therefore, fall under any of the categories of disputes excepted, by the Supreme Court, from the arbitral umbrella.*

49. *Nor am I able to accept Mr. Sudhir Chandra's arguments that the dispute is in the nature of an action in rem. Mr. Sibal has, in this context, sought to distinguish between actions in rem and rights in rem. Though this distinction does, to an extent, manifest the fallacy in the submission of Mr. Sudhir Chandra, I do not deem it necessary to enter, for the purpose, into that intricate jurisprudential thicket. (Avoidance of the temptation to enter into such thickets is, indeed, one of the cautions that Vidya Drolia administers.) The right that the plaintiffs seek to assert, in the plaint, is clearly against the F-4 group, and the F-4 group alone, and not against the whole world. More precisely put, the plaintiffs are not seeking a declaration, of their right to use a particular trademark, against any potential infringer, anywhere in the world, as is the case with “normal” infringement suits. The dispute is clearly inter-se amongst two Family Groups, pillowed on the rights emanating from the FSA and the TMNA, and essentially alleges infraction of the terms of the FSA and TMNA, not of the provisions of the Trade Marks Act. The precise case of the plaintiff is that the defendants have, in using the “Hero” trademark in respect of electric cycles and e-cycles, infringed the covenants of the FSA and TMNA. The infraction, consequently, of the provisions of the Trade Marks Act, even if asserted, is only incidental, arising from the fact that the right to use a particular trademark is statutorily conferred by the said Act. Equally, therefore, even if it were to be assumed that the declaration, by the adjudicator, of the Family Group which would be entitled to*

*use the “Hero” or “Hero Electric” trademark on electric cycles, or e-cycles, would result in that Family Group being the repository of the said trademark, qua the said goods, against the whole world, that by itself would not convert the dispute, as raised in the plaint, as one in rem, or lend it erga omnes effect. To reiterate, in this context, the right asserted by the plaintiffs is not a right that emanates from the Trade Marks Act, but a right that emanates from the FSA and the TMNA, and is not asserted vis-à-vis the whole world, but is asserted specifically vis-à-vis the F-4 Family Group. The argument that the dispute is in rem and is, therefore, not amenable to the arbitral process, therefore, fails to impress.*

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52. *Vidya Drolia, as well as the earlier decisions cited therein, expressly proscribe the Section 8 court from conducting more than a prima facie examination and evaluation. Where a valid arbitration agreement exists, the decision also underscores the position that, ordinarily, the disputes between the parties ought to be referred to arbitration, and it is only where a clear “chalk and cheese” case of nonarbitrability is found to exist, that the court would refrain from permitting invocation of the arbitration clause.*

53. *No such “chalk and cheese” situation has been made out, by the arguments of Mr. Sudhir Chandra, as would rule out the applicability, to the present dispute, of the arbitration agreements, as contained in the FSA and TMNA. The validity of the arbitration agreement, as contained in Clause 19.5 of the FSA and Clause 5.6 of the TMNA, is not in dispute. All other aspects, as argued before me, would more appropriately lend themselves to adjudication by the arbitral process.”*

29. From a reading of the judgment of the Supreme Court in ***Vidya Drolia (supra)***, the legal principles that can be coalesced or put together are: (a) 1996 Act based upon the UNCITRAL Model Law introduced an entirely new regime with the objective of promoting arbitration in commercial and economic matters as an alternate dispute resolution mechanism that is fair, responsive and efficient as also reducing and minimising the supervisory role of Courts; (b) statutory powers of Arbitral Tribunals were amplified and principles of separation and competence-competence were incorporated, while Courts retained some power to have a ‘second look’ in the post-award challenge proceeding; (c) correct approach to the review of arbitration agreement would be restricted to *prima facie* finding that there exists

incapable of being performed [*Ref: Shin-Etsu Chemicals Co. Ltd. v. Aksh Optifibre Ltd. (2005) 7 SCC 234*]; (d) principle of competence-competence has positive and negative connotations. Positive is that the Arbitral Tribunals have the authority of law to rule as to their jurisdiction and decide non-arbitrability questions and implied negative effect curtails and constrains interference by the Court at the referral stage; (e) *prima facie* case in the context of Section 8 is not to be confused with the merits of the case, which have to be established before the Tribunal; (f) when it appears that *prima facie* review would be inconclusive or on consideration inadequate, as it requires detailed examination, the matter should be left for final determination by the Arbitral Tribunal selected by the parties, the underlying rationale being not to delay or defer and to discourage parties from using referral proceedings as a ruse to delay and obstruct i.e. “when it doubt, do refer”; (g) in view of the legislative mandate clear from Act 3 of 2016 and Act 33 of 2019, the Arbitral Tribunal is the preferred first authority to determine and decide all questions of non-arbitrability and rarely as a demurrer, the Court may interfere at the stage of Sections 8 or 11, when it is manifestly clear that the arbitration agreement is non-existent or ex facie invalid; and (h) post the 2015 Amendment, the structure of the 1996 Act was changed to bring it in tune with a pro-arbitration approach and moreover, the amendment to Section 8 now rectifies the shortcomings pointed out in *Chloro Control India Private Ltd. v. Severn Trent Water Purification Inc. and Others, (2013) 1 SCC 641*, with respect to domestic arbitration. Jurisdictional issues concerning whether certain parties are bound by a particular arbitration, under group company doctrine or good faith etc. in multi-party arbitration raises complicated factual questions, which are best left for the Arbitral Tribunal to handle.

30. In *Sundaram Finance Limited (Supra)*, it was held by the Supreme Court that once an application under Section 8 is filed, the approach of the Civil Court should be to see whether the Court has jurisdiction and not see whether its jurisdiction has been ousted. In *Emaar MGF Land Limited v. Aftab Singh, (2019) 12 SCC 751*, the Supreme Court, in light of the amendment to Section 8 and the 246<sup>th</sup> Report of the Law Commission, held that the judicial authority has only to consider the question whether the parties have a valid arbitration agreement and if yes, reference cannot be refused, when a party takes recourse to an application under Section 8.

31. In view of the binding dictum of the Supreme Court in the aforementioned judgments, the only question this Court can pose to itself is ‘whether there exists a valid arbitration agreement’ between the parties and if the answer is in the affirmative, no further questions can be posed and this Court is proscribed from refusing reference to arbitration. A word of caution needs to be noted here. Courts have held that while examining the aspect of existence of a valid arbitration agreement under Section 8, the Court should be alive to the fact that it should not exercise its jurisdiction in a manner as would completely erode or efface the authority of the Arbitral Tribunal to rule thereon and the guiding expressions are “when in doubt, do refer” and “chalk and cheese” situation.

32. A bird’s eye view of facts to the extent relevant and as pleaded in the plaint would be necessary at this stage to answer the question posed above. Plaintiff is the proprietor of the SUPERON and VAC-PAC family of trademarks, copyrights, trade dresses and other Intellectual Property rights associated with goods under the trademarks, in India. As per the Plaintiff, these rights were previously owned by Defendant No.3 and sold to the Plaintiff vide Sale Deed dated 16.12.2021. Plaintiff and Defendant No.1 are Directors of

Defendant No.3 which, according to the Plaintiff, is to be demerged into two separate entities. Though the Board of Directors of Defendant No.3 is composed of the Plaintiff and his family members as 50% shareholders on one hand and Defendant No.1 and his family members as 50% shareholders on the other hand, the effective control of Defendant No.3 is presently in the hands of Defendant No.1 who is also a Director of Defendant No.2 Company.

33. It is averred that Defendant No.3 was incorporated in the year 2004 and was conducting its business under its flagship brand and trademarks VAC-PAC and SUPERON. Domestic business of Defendant No.3 was handled by the Plaintiff and had a turnover of around Rs.279 crores in 2021-22 and the overseas business i.e. exports was being handled by Plaintiff's brother Defendant No.1 with a turnover of around Rs.350 crores in 2021-22.

34. In the year 2020, Plaintiff, Defendant No.1 and their family members decided to formally and legally divide the entire business of Defendant No.3 amongst themselves and entered into several agreements including Memorandum of Understanding ('MoU') dated 28.07.2020, addendum to MoU dated 06.11.2020, Settlement dated 21.07.2021 and finally, the MOFS dated 10.09.2020. Demerger of Defendant No.3 and the division of its business was to take place as per the terms of MOFS. 'SM Group' was to take over domestic business of Defendant No.3 and 'SDM Group', the overseas business. It was also decided that domestic business of Defendant No.3 will be demerged to a new company by the name of Superon Schweisstechnik Industries Limited only for conducting business in India while the export business was to be renamed as Superon Schweisstechnik Corporation Limited only for conducting export business and none would use the company names with the word SUPERON in each other's territories.

35. It is stated in the plaint that as per the agreed terms of MOFS, Plaintiff and Defendant No.1 executed an Assignment Deed on 17.09.2021, however, the same was not finally accepted and thereafter, Defendant No.3, Defendant No.1 and the Plaintiff executed a fresh Sale Deed dated 16.12.2021, superseding all previous agreements, understandings, representations, warranties and arrangements between the parties and Defendant No.3 sold and transferred, absolutely and without any reservation, full ownership and title of the Intellectual Property of Defendant No.3, described in Schedule-1 of the Sale Deed, and all concomitant rights and interests attached thereto, including the entire business goodwill to the Plaintiff and Defendant No.1.

36. It is averred that the Sale Deed was, however, not registered by the Sub-Registrar on the ground that it did not involve sale of immovable property and therefore, to give effect to the terms of the Sale Deed, a Confirmatory Deed of Assignment was executed on 15.03.2022 between Defendant No.3 as Assignor and Plaintiff as Assignee. Pursuant thereto, Plaintiff applied before the Trade Marks Registry for registration as subsequent proprietor of the trademarks SUPERON and VAC-PAC, with due intimation to Defendant No.1.

37. According to pleadings of the plaint, the disputes arose between the parties when in the last week of December, 2021, Plaintiff learnt that Defendant No.2 was unlawfully planning to use various trademarks SUPEROX, SUPERACE, SUPERVAC, SUPERODE and SUPERZYN, which are deceptively similar to SUPERON, sold by Defendant No.3 to Plaintiff for exclusive use in India and Defendant No.2 has also applied their registration. This led to the Plaintiff issuing two legal notices to Defendant No.1 on 20.05.2022. Plaintiff and Defendant No.1 also had meetings on this aspect in which Defendant No.1 agreed that Defendant No.2 will change the trade dress and



colour scheme of its product under the mark STARBLAZE which is also subject to copyright of the Plaintiff. However, when Defendants No.1 & 2 refused to withdraw the impugned trade dress from the market, Plaintiff was compelled to file the present suit.

38. Defendants, according to the Plaintiff, have launched a new product in the Indian market i.e. STARBLAZE which has an identical trade dress as SUPERON products. The impugned product did not mention the name of Defendant No. 2 anywhere on the packaging and was being sold with the name of Defendant No. 3 i.e. the word SUPERON in a prominent manner, to mislead the public and the same was in violation of the MOFS, Sale Deed and the Intellectual Property rights of the Plaintiff in India.

39. It is pleaded that under Clause 2.1 of the Sale Deed from which the rights of the Plaintiff emanate, Defendant No.3 sold and transferred absolutely, without any reservation, entire ownership and title of Intellectual Property of Defendant No.3 including the goodwill to the Plaintiff for India and to Defendant No.1 for exports and as per Clause 2.2, upon execution of the Sale Deed, the transfer was immediately effected. Clause 9.1 provides that the Sale Deed constitutes the entire agreement between the parties and supersedes and extinguishes any prior agreements, undertakings, warranties etc.

40. From a reading of the prayer clause in the plaint, it is evident that Plaintiff alleges infringement and passing off against the Defendants on account of usage of the word or mark SUPERON or any other deceptively similar or identical mark in any manner in India, contrary to the terms of the MOFS and the covenants of the Sale Deed. Relevant paras of the plaint are extracted hereunder:-

*“4. In the year 2020, the Plaintiff, the Defendant No. 1 and their family members decided to formally and legally, divide the entire business of Defendant No. 3 amongst themselves. Accordingly, they entered into several agreements, including the Memorandum of Understanding dated 28.07.20 addendum to MOU dated 06.11.2020,*

*Settlement dated 21.07.2021, and finally, the Memorandum of Family Settlement dated 10.09.2021 (hereinafter referred to as the 'MOS'). The aforesaid agreements are being filed herewith.*

5. *Thus, the demerger of Defendant No. 3 and the division of its business is taking place as per the said MOS. Accordingly, the business of Defendant No. 3 is being divided between two groups - (i) the 'SM' group which includes the Plaintiff his immediate family members and some companies on one side, which will take over the domestic business of Defendant No. 3 and (ii) the 'SDM' group on the other side which includes the Defendant No. 1, his immediate family members and some of his companies, including the Defendant No. 2, which will take over the overseas i.e. export business of Defendant No. 3. It is also relevant to mention that the Plaintiff and the Defendant No. 1 had discussed that the domestic business of Defendant No. 3, belonging to the Plaintiff, will be demerged to a new company by the name of Superon Schweisstechnik Industries Limited only for conducting business in Indi4 while the export business of Defendant No. 3, belonging to Defendant No. 1, shall be renamed to Superon Schweisstechnik Corporation Limited only for conducting export business. It was also discussed that the Plaintiff and Defendant No. 1 shall not use the aforesaid company names with the word SUPERON in each other's territories.*

6. *As per the agreed terms in the MOS, the Defendant No. 3, the Plaintiff and the Defendant No. 1 had executed an Assignment Deed on 17.09.2021, but the Intellectual Property of the Defendant No. 3 in the said deed was valued at a lower price, therefore, the same was not considered. Thus, the Defendant No. 3, the Plaintiff and the Defendant No. 1 executed a fresh Sale Deed dated 16.12.2021, superseding all previous agreements, understandings, representations, warranties and arrangements between the parties thereto, as per Clause 9.1 of the same. Furthermore, under Clause 2.1 of the said Sale Deed, the Defendant No. 3 sold and transferred, absolutely and without any reservation, the full ownership and title of the Intellectual Property of Defendant No. 3 (as described in Schedule-1 of the Sale Deed) and all concomitant rights and interests attached thereto, including the entire associated business goodwill to the Plaintiff and to the Defendant No. 1 as per the following arrangement:*

*i. The Plaintiff became the exclusive owner of Defendant No. 3's Intellectual Property, including the word SUPERON, VAC-PAC trademarks, logo bearing the word SUPERON and trade dress, and the associated goodwill, within the territory of India. The Plaintiff became entitled to (i) the exclusive and beneficial use of the said Intellectual Property and (ii) register the same in his own name, and (iii) continue/initiate legal proceedings for the protection of such Intellectual Property. [Clause 3(a)]*

*ii. Likewise, in the above manner, the Defendant No. 1 became the exclusive owner of Defendant No. 3's intellectual property and its goodwill outside. territory of India. [Clause 3 (b)]*

iii. *Neither the Plaintiff nor the Defendant No. 1 have any rights in the purchased intellectual property in each other's territories. [Clauses 3(a) and (b)]*

iv. *The sale of intellectual property as aforesaid also includes the sale of goodwill attached thereto. [Clause 4.1]*

v. *The Defendant No. 3 shall perform all acts and execute all documents as may be required by the Plaintiff and by the Defendant No. 1 to record their rights as per law. Accordingly, the Defendant No. 3 shall sign all applications as may be required by the Plaintiff to record himself as the subsequent proprietor of Defendant No. 3's intellectual property in India before the Trade Marks Registry. [Clause 7]*

7. *Furthermore, as per Clause 2.2 of the Sale Deed, the Plaintiff became the exclusive owner of all rights and interests in the intellectual property previously owned by Defendant No. 3, including SUPERON as a word, as well as SUPERON and VAC-PAC trademarks, copyrights and trade dresses, along with their entire goodwill, within the territory of India, with effect from 16.12.2021, as the said rights stood immediately transferred upon the execution of the Sale Deed.*

8. *It was also expressly agreed in Clause 5(f) of the Sale Deed that consequent to the sale of the Intellectual Property made therein, no multiple rights shall be created within the territory of India by the Defendant No. 3 and there shall be no adverse effect to public interest. Moreover, under Clause 5(g), it was expressly agreed that the sale of the Intellectual Property under the Sale Deed was for the entire business of the Defendant No. 3, and no rights had been retained by Defendant No. 3 whatsoever. Moreover, it was agreed that the Defendant No. 3 shall not engage in the same business in any manner, using the intellectual property including the word SUPERON, sold under the Sale Deed.*

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23. *In the last week of December 2021, the first unlawful act of the Defendants came to the knowledge of the Plaintiff, that the Defendant No. 2 unlawfully planned to use several trademarks - SUPEROX, SUPERACE, SUPERVAC, SUPERODE and SUPERZYN, which are deceptively similar to the word SUPERON and other related trademarks of SUPERON, which have been sold by Defendant No. 3 to the Plaintiff for exclusive use in India; and the Defendant No. 2 has applied for registration of the same as follows:*

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29. *It is pertinent to note that the malafides of the Defendants are writ large in the fact that they are acting in unlawful collusion to violate the contractual and intellectual property rights of the Plaintiff. It is important to mention that though the STARBLAZE products have been launched by the Defendant No. 2, the said*

*product does not mention the name of the Defendant No. 2 anywhere on the packaging of the said product. In fact, the Defendants are mentioning the name of Defendant No. 3 i.e. the word SUPERON in a prominent S I manner, to mislead the public and members of trade to make them believe that the product under the mark STARBLAZE is a product associated with the SUPERON brand, which is now owned by the Plaintiff.*

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**34. Moreover, apart from violating the intellectual property rights of the Plaintiff in the aforementioned manner, the Defendant Nos. 1 and 2, have also violated the MOS dated 10.09.2021 and they are creating a number of roadblocks in the demerger of the Defendant No. 3, for which the Plaintiff has served a legal notice dated 02.07.2022 to the concerned parties and the Plaintiff reserves his right to take separate legal action against the Defendant Nos. 1 and 2 for the said purpose. The Defendant Nos. 1 and 2 have also responded to the aforesaid legal notice via reply dated 09.07.2022 wherein they have again taken false and frivolous stand for violating the intellectual property of the Plaintiff. Copies of the said notice dated 02.07.2022 and reply dated 09.07.2022 are being filed herewith.”**

41. Relevant would it be to also refer to clauses from MOFS, as follows:-

*“B. Pursuant to the Previous MoS, the Groups have amicably bifurcated and divided amongst themselves all assets, which were the subject matter of the Previous MoS, except the division of Superon Schweisstechnik India Limited, which is a public limited company incorporated under the Companies Act, 1956 with corporate identification number U27320OL2004P1C124558 and registered office address at A'125 Okhla Industrial Area Phase II New Delhi - 110020, India (hereinafter referred to as the "company" or 'Superon') and is engaged in the business of manufacture, sale and marketing of welding consumables in India and abroad.*

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*D. In furtherance of the Previous MoS and the Balance Sheet Division Agreed Plan, the Parties have agreed to divide the Domestic business and international business of the Company by way of demerger of businesses on the terms and conditions and in the manner recorded in this MoS.*

## **2. DIVISION OF THE COMPANY**

*2.1 The Parties shall, as soon as reasonably practicable and in accordance with the respective timelines set out for each action within this MoS, and in any case not later than 4 (four) months from the Execution Date ("Final Date") or any mutually extended period, complete all actions and obligations, to the satisfaction of the other Parties, in the manner set out herein and as may be required the*

*applicable law, in order to give effect to the following business division within the Company ("Division of Undertaking"):*

*(a) The Domestic Business of the Company (Domestic Business) shall be taken over by the SM Group;*

*(b) The Export Business of the Company (Export Business) shall be taken over by the SDM Group.*

*The Division of Undertaking shall take effect on and from the date when all actions under this MoS for the same are completed by both Groups or at the end of 4 (four) months from the Execution Date, whichever is earlier.*

*2.2 After the Division of Undertaking as set out at Clause 2.1 above, the Parties shall, within 60 (sixty) days, or within such further period as may be mutually agreed between the Groups, file a scheme under the provisions of the Companies Act, 2013 for demerger of the Company under the order of the court of competent jurisdiction in a manner that either the Domestic Business or the Export Business is vested in an entity to be demerged from the Company ("**Court Demerger**")."*

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*2.5 On and from the completion of Division of Undertaking till the Court Demerger:*

*(a) both the Groups shall work independent of each other, save and except in the manner as may be otherwise stated in this MoS, and any support shall only be on a mutually agreed basis between the Groups; and*

*(b) each Group shall be responsible for its respective business operations, profit and loss and shall have no claim on the revenue/profit and loss streams of the other Group.*

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*2.8 The Parties agree that in the event the scheme for Court Demerger is disapproved or not approved within a period of 12 (twelve) to 24 (twenty-four) months from the date of filing of the scheme for Court Demerger or such other period as may be agreed between the Parties, adequate steps may be jointly taken by the Parties for sale of the entire Company at a fair market value or an amount which is 1.2 times of the then existing turnover of the Company, whichever is higher. In the event of sale of the Company, the balance amounts out of the Supply Dues outstanding at the time of such sale shall be paid to the SDM Group prior to the payment of the proceeds to the shareholders of the Company.*

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**3(c) Trademark, Trade Name, Copyright, Logo and packaging design rights/restrictions: The parties have agreed that:**

- *Sanjay Mehra of the SM Group shall be the exclusive owner and proprietor of the intellectual property of the Company including, trade-marks, trade names, product names, copyrights, Superon word and logo design on the packaging*

*design and Superon branded promotional and marketing materials within the territory of India, and shall have exclusive right to use the same in their business operations including use in any manner on the products, packaging, promotional/marketing material etc. in the well-established Superon packaging colour and design or otherwise only for the purpose of marketing and sale of products in India as more particularly agreed in the deed of assignment to be executed between the Company, Sanjay Mehra of the SM Group and Sharad Mehra of the SDM Group in a form mutually agreed between the Parties ("**Deed of Assignment**"). Upon the Parties agreeing on the form of the Deed of Assignment, such form shall be deemed to form part of this MoS.*

- *Sharad Mehra of the SDM Group shall be the exclusive owner and proprietor of the intellectual property of the Company including, trade-marks, trade names, product names, copyrights, Superon word and logo design on the packaging design and Superon branded promotional and marketing materials outside the territory of India, and shall have exclusive right to use the same in their business operations including use in any fashion on the products, packaging, promotional/marketing material etc. in the well-established 'Superon' packaging colour and design or otherwise only for the purpose of marketing and sale of products outside India as more particularly agreed in the Deed of Assignment. Sharad Mehra of the SDM Group shall also have the limited right to use the 'Superon' word and logo design on its visiting cards, letterheads and uniforms, if any, to be used inside the territory of India but shall not use the Superon word and logo design on any products, packaging material, promotional materials for sale / marketing of any kind of product promotion, customer solicitation, advertisement etc. for the purposes of sale inside the territory of India, as more particularly agreed in the Deed of Assignment.*
- *Both Sanjay Mehra and Sharad Mehra shall be entitled to use the know-how, technology and other information pertaining to the business of the Company for development and furtherance of the business of their Groups in India or any other country and permit its use by companies of their respective Group provided they do not use the Superon word and logo design on the packaging design and Superon branded promotional and marketing materials except as indicated above. It is also clarified that both the Groups are free to undertake any business in any country under any brand other than the brands and marks owned by the Company as more particularly described in the Deed of Assignment.*
- *The above said Deed of Assignment shall alone contain and govern all terms, conditions, rights and liabilities of the*

*Parties as regards all intellectual properties, whether registered or unregistered, owned or held by the Company. The said Deed of Assignment after its execution shall be annexed with this MoS as Schedule V and shall form an integral part of this MoS.*

*The parties also agree to facilitate each other in taking such steps as may be necessary for giving effect to the all the above terms, as may be required under any law, at the time being in force.”*

42. From a conjoint reading of the averments in the plaint and the covenants in the MOFS as well as the Sale Deed, in my view, the disputes raised in the present suit entirely centre around the MOFS/Sale Deed and the understanding of the parties therein. Division of the Company, assets, liabilities, machinery, intellectual properties, manner and mode as well as time frame for demerger of Defendant No. 3, effect of failure of merger etc. and most importantly, territorial rights to use the mark SUPERON exclusively in India and abroad are all governed by the MOFS, which also envisions and provides for execution of an Assignment Deed, which is the Sale Deed to facilitate sale of intellectual properties of Defendant No. 3 in favour of Plaintiff and Defendant No.1 and mirrors the respective territorial rights. No doubt, the allegations *inter alia* pertain to infringement of trademark and copyright against the Defendants, however, essentially the claims of the Plaintiff hinge on rights flowing from the understanding/arrangement between the parties reflected in the MOFS and entrenched in its terms and a breach thereof. From a meaningful and holistic reading of the plaint, it is luminously clear that Plaintiff is aggrieved by Defendants’ use of the mark SUPERON in a forbidden territory, contrary to the agreement between the parties that SDM group shall be the exclusive owner and proprietor of the intellectual property of the Company including, trade-marks, trade names, product names, copyrights, Superon word and logo design on the packaging design and Superon branded promotional and marketing materials

outside the territory of India, which was incorporated as one of the terms of Division of Business of the Company in the MOFS. Even though, reliance is placed by the Plaintiff on provisions such as Sections 28 and 29 of the 1996 Act, essentially what is the bone of contention is the infraction/breach of the terms of the MOFS. The territorial rights claimed by the Plaintiff emerge out of the MOFS and thus any dispute with respect thereto, in my view, would relate to the MOFS and would involve appreciation/interpretation of its covenants and their interplay and cannot be effectively adjudicated without reference to its terms. The disputes arise out of alleged breach of the terms of the covenants and are envisioned in the arbitration clause 7.1 in the MOFS and as rightly contended by the Defendants, arise 'out of' or 'in connection with' the MOFS.

43. Much was argued on behalf of the Plaintiff that the Sale Deed is a separate document wherein Defendant No. 3 is a party and the MOFS or the arbitration clause therein cannot bind Defendant No. 3, who is not a party in the MOFS and/or even assuming the disputes were partly covered by MOFS and partly by the Sale Deed, the subject matter cannot be bifurcated and non-parties to the arbitration agreement cannot be referred to arbitration against their consent.

44. This plea needs to be examined both factually and legally for its correctness. Plaintiff has adopted a position that the Sale Deed is a standalone document with no link or connection to the MOFS. Defendants contend that the MOFS itself contemplated/envisioned execution of a Deed of Assignment which would contain terms and rights and liabilities of the parties qua the intellectual properties, owned by Defendant No.3. *Albeit* in the strict sense, a Deed of Assignment was not executed for the reasons explained by Defendants, however, Sale Deed was executed and vide this Sale Deed, Defendant No. 3, in lieu of consideration of an amount



specified therein, to be paid by each of the vendees i.e. Plaintiff and Defendant No. 1 herein, agreed to sell and transfer absolutely and without any reservation, the full ownership and title to the intellectual property and all concomitant rights and interests attached to such ownership, including the business goodwill in India and export markets to the vendee. It is clear from a reading of the MOFS and Sale Deed that the latter is not a standalone document but was executed in furtherance of the understanding between the parties, reflected in the MOFS and for facilitating its implementation towards division of the business of the Company and granting respective rights to the Plaintiff and Defendant No.1. In the Sale Deed, exclusive territorial ownership of the intellectual property and sold rights was reiterated and a bare reading of the same shows that this was replicated from the terms in the MOFS and both are inextricably linked to each other. Relevant clause 3 is extracted hereunder:-

***“3. TERRITORIAL OWNERSHIP OF INTELLECTUAL PROPERTY AND SOLD RIGHTS.***

*(a) India Rights: Except as specifically indicated in Clause 3(c) below, the First Vendee alone shall be the legal owner of the Intellectual Property including but not limited to SUPERON trademarks and logo and trade dress etc. and the associated goodwill enjoyed in the Indian market along with the related Sold Rights within the territory of India, and thereby be entitled to (i) its exclusive beneficial use in the course of trade within such territory, (ii) register it in his own name or in the name of his business enterprises, if not already have and (iii) continue, initiate or defend legal proceedings relating to the Intellectual Property and retain any reliefs recovered. (including damages/account of profits).*

*Except as specifically indicated in Clause 3 (c) below, the Second Vendee shall not have any ownership rights to the Intellectual Property or the associated goodwill within India nor shall it have any right to sell in India any of its products using the Superon word and logo design, trademarks, copyrights, trade dress, established colour schemes, packaging designs and brand names as set out in **Schedule 1** on any products, packaging material, promotion material for sale/marketing of any kind of product promotion, customer solicitation, advertisement etc. for the purpose of sale inside the territory of India. It shall only have the restricted and limited right to the use the 'SUPERON' name and logo and trade dress for: (i) manufacturing and branding its products/packaging for*

*the exclusive purpose of exporting them; and (ii) use on visiting cards, letterheads and uniforms, except for product promotion, customer solicitation and advertisement etc. for the purpose of sale of any product inside the territory of India.*

*Under no circumstances shall the Second Vendee or any of his Affiliates use the trademarks copyrights and brand names set out in **Schedule 1** hereto to: (i) solicit any customers for sale in India; and/or (ii) sell its products within territory of India.*

*(b) Overseas Rights: Except as specifically indicated in Clause 3(c) below the Second Vendee alone shall be the legal owner of the Intellectual Property including but not limited to SUPERON trademarks and logo and trade dress etc. and the associated goodwill in all foreign countries (territories outside India) as well as the related Sold Rights for all foreign countries (territories outside India), and shall thereby be entitled in these territories to: (i) its exclusive beneficial use in the course of trade; (ii) register it in his own name or in the name of his business enterprise, if not already have and (iii) continue, initiate/defend legal proceedings relating to the Intellectual Property and obtain and retain any reliefs recovered (including damages or an account of profits).*

*Except as specifically indicated in Clause 3(c) below, Vendee shall not have any ownership rights to the Intellectual Property or the associated goodwill in any country other than India nor shall it have any right to sell in any foreign countries (territories outside India) any of its products using the SUPERON trademarks and logo and trade dress nor shall it have any right use 'the Superon word and logo design, trademarks, copyrights, trade dress, established colour schemes, packaging designs and brand names as set out in **Schedule 1** on any products, packaging material, promotional material for sale/marketing of any kind of product promotion, customer solicitation, advertisement etc. for the purpose of sale outside the territory of India. It shall only have the restricted and limited right to use the SUPERON name and logo and trade dress on its visiting cards, letterheads and uniforms, except for product promotion, customer solicitation, and advertisement etc. for the purpose of sale of any product outside the territory of India.*

*Under no circumstances shall the First Vendee or any of his Affiliates use the trademarks, copyrights and brand names set out in Schedule 1 hereto to: (i) solicit any customers for sale outside India; and/or (ii) sell its products outside India.*

*(c) Joint Rights: Notwithstanding anything contained herein, both the Vendees shall be entitled to use the know-how, technology and other information pertaining to the business of the Company for development and furtherance of the businesses owned by them or their Affiliates in any jurisdiction worldwide and permit its use by their Affiliates provided they do not use the trademarks, copyrights, brand names and the well established Superon packing colour and design set out in **Schedule 1** hereto in any territory other than their respective territories indicated in Clause 3(a) and 3(b) above.*

*It is also clarified that both the Groups are free to undertake any business in any country using any brand or trade name other than the trademarks, copyrights and brand names set out in **Schedule 1** hereto.”*

45. Moreover, the Sale Deed also refers to a Board Resolution dated 10.09.2021, whereby a decision was taken by Defendant No. 3 to assign the rights to Plaintiff and Defendant No. 1. Legal notice dated 20.05.2022 sent by the Plaintiff to Defendant No. 1 is an acknowledgement of the fact that the Sale Deed was executed in furtherance of the MOFS. Relevant para is as follows:-

*“7. You are well-aware that vide Memorandum of Family Settlement (MoS) dated 10.09.2021, the business of the company Superon Schweisstechnik India Ltd. was divided into two parts: Domestic Business – which was decided to be taken over by the group headed by our client, and Export Business – which was decided to be taken over by the group headed by you, the Noticee No. 1. In furtherance thereof, vide Sale Deed dated 16.12.2021, Superon Schweisstechnik India Ltd. sold separate parts of its intellectual property to our client and to you, the Noticee No. 1.”*

46. This position adopted by the Plaintiff is reiterated in para 5 of the legal notice dated 02.07.2022, as under:

*“5. In furtherance of clause 3.2(c), the Company vide Sale Deed dated December 16, 2021, sold its Intellectual Property ("IP") rights including copyright for the word "Superon" to Our Client for usage in India and to you the Noticee in the export market. It is pertinent to mention that under Clause 3.2(c) of MoFS-II and Clause 3 (a) of the said Sale Deed dated 16.12,2021,it was agreed that:*

*a. Our Client shall be the exclusive legal owner and proprietor of the Company's Intellectual Property including trade-marks, logos, trade names, product names, copyrights, SUPERON word and logo design on the packaging design, colour scheme and SUPERON branded promotional and marketing materials as well as the associated goodwill enjoyed in the Indian market, within the territory of India;*

*b. Our Client shall be entitled to the exclusive beneficial use of the aforesaid within India;*

*c. SDM shall not have any ownership rights in Superon Schweisstechnik India Ltd.'s Intellectual Property or the associated goodwill within India;*

*d. SDM shall have no right to use the SUPERON word and logo design on any product, packaging material including colour scheme, promotional materials for sale/marketing of any kind of product promotion, customer solicitation, advertisement, etc. for*

*the purpose of sale inside the territory of India, directly or indirectly.”*

47. As rightly pointed out by Defendant No. 1, even in the petition filed by the Plaintiff before the NCLT against the Defendants, the stand of the Plaintiff was that the Sale Deed was executed in accordance with the MOFS and in furtherance thereto. Last para of Clause 3.2(c) highlights why another deed was to be executed and it is clear that the sole purpose of execution was for giving effect to all the covenants of MOFS, as required under any law, for the time being in force. In order to ensure that the rights of the parties remain preserved, Clause 8 provided that the MOFS with any documents referred in it will constitute the entire agreement between the parties on the subject matter of MOFS. The sale deed, therefore, takes its birth from the requirements in the MOFS and is inextricably linked to it and cannot be treated as a separate document or in supersession thereof, in the sense the Plaintiff wants this Court to read and interpret.

48. In this view of the matter, even if the Sale Deed does not contain an arbitration clause and/or Defendant No.3 is not party to the MOFS makes no difference as the Sale Deed is integrally linked to the MOFS and the disputes raised in the suit cannot be resolved between the parties, without referring to both the documents. The rights, whose infraction is complained of by the Plaintiff, arise out of the covenants and mutual terms incorporated in the MOFS read with the Sale Deed *albeit* the right to use the mark SUPERON is statutorily conferred by the Act, but that is not the heart of the dispute in the present case.

49. A somewhat similar issue arose for consideration before the Supreme Court in *Sanjiv Prakash v. Seema Kukreja and Others, (2021) 9 SCC 732*, *albeit* it was in the context of a petition under Section 11 of the 1996 Act. A private company was incorporated by Respondent No. 3, the entire paid-up capital being paid from his

personal funds, which he then distributed amongst his family members. Memorandum of Understanding was entered into between four members of Appellant's family pursuant to a foreign company approaching the Appellant for long term equity investment and collaboration. On the same day, Shareholders' Agreement ('SHA') was executed between Appellant's family and the said company along with a Share Purchase Agreement ('SPA'), containing an arbitration clause similar to the one in the SHA. Disputes arose between the parties when Respondent No. 3 decided to transfer his shareholding to be held jointly between Appellant and him. Notice invoking arbitration clause contained in the MoU was served by Appellant on three Respondents alleging that his pre-emptive right to purchase Respondent No. 2's share had been breached. Respondents denied that there was any arbitration clause between the parties as MoU itself had been superseded and did not exist. Analysing the facts in the backdrop of the law on the subject the Supreme Court held as follows:-

*"7. Disputes between the parties arose when Prem Prakash decided to transfer his shareholding to be held jointly between Sanjiv Prakash and himself, and Daya Prakash did likewise to transfer her shareholding to be held jointly between Seema Kukreja and herself. A notice invoking the arbitration clause contained in the MoU was then served by Sanjiv Prakash on 23-11-2019 upon the three respondents, alleging that his pre-emptive right to purchase Daya Prakash's shares, as was set out in Clause 8 of the MoU, had been breached, as a result of which disputes had arisen between the parties and Justice Deepak Verma (retired Judge of this Court), was nominated to be the sole arbitrator. The reply filed by Seema Kukreja and Daya Prakash, dated 20-12-2019, pointed out that the MoU ceased to exist on and from the date of the SHA i.e. 12-4-1996, which superseded the aforesaid MoU and novated the same in view of Clause 28.2 thereof. Therefore, they denied that there was any arbitration clause between the parties as the MoU itself had been superseded and did not exist after 12-4-1996. In view of this, Sanjiv Prakash moved the Delhi High Court under Section 11 of the 1996 Act by a petition dated 6-1-2020. In the said petition, an interim order was passed on 9-1-2020 [Sanjiv Prakash v. Seema Kukreja, 2020 SCC OnLine Del 1777] , as follows : (Sanjiv Prakash case [Sanjiv Prakash v. Seema Kukreja, 2020 SCC OnLine Del 1777] , SCC OnLine Del para 12)*

*“12. All the parties agree to defer Agenda Nos. 4 and 8 circulated in the notice dated 31-12-2019 in the Board meeting scheduled to be held on 15-1-2020 for a date beyond the next date of hearing fixed in this matter.”*

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21. *Likewise, in BSNL v. Nortel Networks (India) (P) Ltd. [BSNL v. Nortel Networks (India) (P) Ltd., (2021) 5 SCC 738 : (2021) 3 SCC (Civ) 352] , another Division Bench of this Court referred to Vidya Drolia [Vidya Drolia v. Durga Trading Corpn., (2021) 2 SCC 1 : (2021) 1 SCC (Civ) 549] and concluded : (BSNL case [BSNL v. Nortel Networks (India) (P) Ltd., (2021) 5 SCC 738 : (2021) 3 SCC (Civ) 352] , SCC pp. 765-66, paras 46-47)*

*“46. The upshot of the judgment in Vidya Drolia [Vidya Drolia v. Durga Trading Corpn., (2021) 2 SCC 1 : (2021) 1 SCC (Civ) 549] is affirmation of the position of law expounded in Duro Felguera [Duro Felguera, S.A. v. Gangavaram Port Ltd., (2017) 9 SCC 729 : (2017) 4 SCC (Civ) 764] and Mayavati Trading [Mayavati Trading (P) Ltd. v. Pradyuat Deb Burman, (2019) 8 SCC 714 : (2019) 4 SCC (Civ) 441] , which continue to hold the field. It must be understood clearly that Vidya Drolia [Vidya Drolia v. Durga Trading Corpn., (2021) 2 SCC 1 : (2021) 1 SCC (Civ) 549] has not resurrected the pre-amendment position on the scope of power as held in SBP & Co. v. Patel Engg. Ltd. [SBP & Co. v. Patel Engg. Ltd., (2005) 8 SCC 618]*

*47. It is only in the very limited category of cases, where there is not even a vestige of doubt that the claim is ex facie time-barred, or that the dispute is non-arbitrable, that the court may decline to make the reference. However, if there is even the slightest doubt, the rule is to refer the disputes to arbitration, otherwise it would encroach upon what is essentially a matter to be determined by the tribunal.”*

22. *Judged by the aforesaid tests, it is obvious that whether the MoU has been novated by the SHA dated 12-4-1996 requires a detailed consideration of the clauses of the two agreements, together with the surrounding circumstances in which these agreements were entered into, and a full consideration of the law on the subject. None of this can be done given the limited jurisdiction of a court under Section 11 of the 1996 Act. As has been held in para 148 of Vidya Drolia [Vidya Drolia v. Durga Trading Corpn., (2021) 2 SCC 1 : (2021) 1 SCC (Civ) 549] , detailed arguments on whether an agreement which contains an arbitration clause has or has not been novated cannot possibly be decided in exercise of a limited prima facie review as to whether an arbitration agreement exists between the parties. Also, this case does not fall within the category of cases which ousts arbitration altogether, such as matters which are in rem proceedings or cases which, without doubt, concern minors, lunatics or other persons incompetent to contract. There is nothing vexatious or frivolous in the plea taken by the appellant. On the contrary, a Section 11 court would refer the matter when contentions relating to*

*non-arbitrability are plainly arguable, or when facts are contested. The court cannot, at this stage, enter into a mini trial or elaborate review of the facts and law which would usurp the jurisdiction of the Arbitral Tribunal.”*

50. For all the aforementioned reasons, Court comes to a conclusion that there exists a valid arbitration agreement between the parties, incorporated in the MOFS, which is not even contested by the Plaintiff and no “chalk and cheese” situation exists to discredit the case of the Defendants seeking reference of the disputes to arbitration. The question is thus answered in favour of the Defendants and against the Plaintiff.

51. In my view, Defendants’ case for reference also steers clear of the debate relating to action in *personam* and an action in *rem*. It is held by the Supreme Court in *Vidya Drolia (supra)* and followed in *Hero Electric Vehicles (supra)* and *Liberty Footwear Company v. Liberty International, 2023 SCC OnLine Del 83*, that disputes which cannot be arbitrated are “grant and issue of patents and registrations of trademarks” as they are “exclusive matters falling within the sovereign and government functions” having “*erga omnes effect*”. Dispute in the present suit is an inter-se dispute between two family groups and not the world at large and emanates out of the MOFS and the Sale Deed executed in furtherance thereto and is thus a dispute *in personam* and not *in rem* and is amenable to the arbitral process.

52. The judgments relied on by the Plaintiff, in my view, do not come to his aid. Plaintiff has placed heavy reliance on the judgments of the Supreme Court in *Sukanya Holdings (P) Ltd. (supra)* to contend that if the dispute can be bifurcated between a suit and an arbitration, then reference cannot be made to arbitration, especially against the non-party i.e. Defendant No. 3. The said decision was rendered prior to the amendment to Section 8 as forenoted in *Vidya*

Plaintiff's advantage. In *Emaar MGF (supra)*, the Supreme Court observed that the law declared in *Sukanya Holdings (P) Ltd. (supra)* was in existence when the Law Commission submitted its 246<sup>th</sup> Report and Parliament considered the Bill, 2015 for the Amendment Act, 2016 and Report contains a reference to the said judgment in the context of Section 8. The words "notwithstanding any judgement, decree or order of the Supreme Court or any court" added by amendment to Section 8 were intended to minimize judicial interference in an arbitration agreement and Courts have to only consider if there exists a valid arbitration agreement. In *Emaar MGF (Supra)*, the Supreme Court held as under:-

*"50. In Sukanya Holdings (P) Ltd. v. Jayesh H. Pandya [Sukanya Holdings (P) Ltd. v. Jayesh H. Pandya, (2003) 5 SCC 531], this Court had occasion to consider the ingredients of Section 8. This Court noticed certain circumstances, where matter was not required to be referred to the Arbitral Tribunal. In paras 12, 13 and 15, the following has been held: (SCC pp. 535-36)*

*"12. ... Further, the matter is not required to be referred to the Arbitral Tribunal, if: (1) the parties to the arbitration agreement have not filed any such application for referring the dispute to the arbitrator; (2) in a pending suit, such application is not filed before submitting first statement on the substance of the dispute; or (3) such application is not accompanied by the original arbitration agreement or duly certified copy thereof. ...*

*13. Secondly, there is no provision in the Act that when the subject-matter of the suit includes subject-matter of the arbitration agreement as well as other disputes, the matter is required to be referred to arbitration. There is also no provision for splitting the cause or parties and referring the subject-matter of the suit to the arbitrators.*

*\*\*\**

*15. The relevant language used in Section 8 is: 'in a matter which is the subject of an arbitration agreement'. The court is required to refer the parties to arbitration. Therefore, the suit should be in respect of "a matter" which the parties have agreed to refer and which comes within the ambit of arbitration agreement. Where, however, a suit is commenced — "as to a matter" which lies outside the arbitration agreement and is also between some of the parties who are not parties to the arbitration agreement, there is no question of application of Section 8. The words "a matter" indicate that the entire subject-matter of the suit should be subject to arbitration agreement."*

*(emphasis in original)*



51. *The Court further held that Section 8 does not admit interpretation to partly referring the disputes to arbitration. In para 16, the following was laid down: [Sukanya Holdings (P) Ltd. case [Sukanya Holdings (P) Ltd. v. Jayesh H. Pandya, (2003) 5 SCC 531], SCC p. 536]*

*“16. The next question which requires consideration is - even if there is no provision for partly referring the dispute to arbitration, whether such a course is possible under Section 8 of the Act. In our view, it would be difficult to give an interpretation to Section 8 under which bifurcation of the cause of action, that is to say, the subject-matter of the suit or in some cases bifurcation of the suit between parties who are parties to the arbitration agreement and others is possible. This would be laying down a totally new procedure not contemplated under the Act. If bifurcation of the subject-matter of a suit was contemplated, the legislature would have used appropriate language to permit such a course. Since there is no such indication in the language, it follows that bifurcation of the subject-matter of an action brought before a judicial authority is not allowed.”*

52. *The law as declared by this Court in the above cases was in existence when the Law Commission submitted its 246th Report and Parliament considered the Bill, 2015 for the Amendment Act, 2016. The Law Commission itself in its Report has referred to amendment in Section 8 in the context of decision of this Court in Sukanya Holdings (P) Ltd. [Sukanya Holdings (P) Ltd. v. Jayesh H. Pandya, (2003) 5 SCC 531], which was clearly noticed in the Note to Section 8 as extracted above. The words “notwithstanding any judgment, decree or order of the Supreme Court or any court” added by amendment in Section 8 were with intent to minimise the intervention of judicial authority in the context of arbitration agreement. As per the amended Section 8(1), the judicial authority has only to consider the question “whether the parties have a valid arbitration agreement?” The Court cannot refuse to refer the parties to arbitration “unless it finds that prima facie no valid arbitration agreement exists”. The amended provision, thus, limits the intervention by judicial authority to only one aspect i.e. refusal by judicial authority to refer is confined to only one aspect, when it finds that prima facie no valid arbitration agreement exists. Other several conditions, which were noticed by this Court in various pronouncements made prior to amendment were not to be adhered to and the legislative intendment was a clear departure from fulfilling various conditions as noticed in the judgment of P. Anand Gajapathi Raju [P. Anand Gajapathi Raju v. P.V.G. Raju, (2000) 4 SCC 539] and Sukanya Holdings (P) Ltd. [Sukanya Holdings (P) Ltd. v. Jayesh H. Pandya, (2003) 5 SCC 531]*

53. *Same legislative intendment is decipherable by amendment of Section 11 by adding sub-section (6-A). Section 11(6-A) is as follows:*

**“11. Appointment of arbitrators.—**

\* \* \*

*(6-A) The Supreme Court or, as the case may be, the High Court, while considering any application under sub-section (4) or sub-section (5) or sub-section (6), shall, notwithstanding any judgment, decree or order of any court, confine to the examination of the existence of an arbitration agreement.”*

54. *The same words “notwithstanding any judgment, decree or order of any court” find place in sub-section (6-A) of Section 11 and the Supreme Court and High Court are confined to the examination of the existence of an arbitration agreement. This Court had occasion to consider the amendment made in Section 11(6-A) in Duro Felguera SA [Duro Felguera SA v. Gangavaram Port Ltd., (2017) 9 SCC 729 : (2017) 4 SCC (Civ) 764] . Kurian Joseph, J. in his concurring opinion in para 48 has laid down the following:*

*“48. Section 11(6-A) added by the 2015 Amendment, reads as follows:*

*‘11. (6-A) The Supreme Court or, as the case may be, the High Court, while considering any application under sub-section (4) or sub-section (5) or sub-section (6), shall, notwithstanding any judgment, decree or order of any court, confine to the examination of the existence of an arbitration agreement.’*

*From a reading of Section 11(6-A), the intention of the legislature is crystal clear i.e. the court should and need only look into one aspect—the existence of an arbitration agreement. What are the factors for deciding as to whether there is an arbitration agreement is the next question. The resolution to that is simple—it needs to be seen if the agreement contains a clause which provides for arbitration pertaining to the disputes which have arisen between the parties to the agreement.”*

*(emphasis in original)*

55. *Section 8 of the 1996 Act as amended also came for consideration in Ameet Lalchand Shah v. Rishabh Enterprises [Ameet Lalchand Shah v. Rishabh Enterprises, (2018) 15 SCC 678 : (2019) 1 SCC (Civ) 308 : AIR 2018 SC 3041]. This Court noticed the object and purpose of amended Section 8. In paras 28 and 30, the following has been laid down: (SCC pp. 697-98)*

*“28. ‘Principally four amendments to Section 8(1) have been introduced by the 2015 Amendments — (i) the relevant “party” that is entitled to apply seeking reference to arbitration has been clarified/amplified to include persons claiming “through or under” such a party to the arbitration agreement; (ii) scope of examination by the judicial authority is restricted to a finding whether “no valid arbitration agreement exists” and the nature of examination by the judicial authority is clarified to be on a “prima facie” basis; (iii) the cut-off date by which an application under Section 8 is to be presented has been defined to mean “the date of” submitting the first statement on the substance of the dispute; and (iv) the amendments are expressed to apply notwithstanding any prior judicial precedent. The*

*proviso to Section 8(2) has been added to allow a party that does not possess the original or certified copy of the arbitration agreement on account of it being retained by the other party, to nevertheless apply under Section 8 seeking reference, and call upon the other party to produce the same.’ (Ref.: Justice R.S. Bachawat’s Law of Arbitration and Conciliation, Sixth Edn., Vol. I (Sections 1 to 34) at p. 695 published by Lexis Nexis).*

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30. *The language of amendment to Section 8 of the Act is clear that the amendment to Section 8(1) of the Act would apply notwithstanding any prayer, judgment, decree or order of the Supreme Court or any other court. The High Court laid [Ameet Lalchand Shah v. Rishabh Enterprises, 2017 SCC OnLine Del 7865] emphasis upon the word ‘... unless it finds that prima facie no valid agreement exists’. The High Court observed that there is no arbitration agreement between Astonfield and Rishabh. After referring to Sukanya Holdings [Sukanya Holdings (P) Ltd. v. Jayesh H. Pandya, (2003) 5 SCC 531] and the amended Section 8 and Section 45 of the Act, the High Court pointed out the difference in language of Section 8 and Section 45 of the Act. The High Court distinguished between Sukanya Holdings [Sukanya Holdings (P) Ltd. v. Jayesh H. Pandya, (2003) 5 SCC 531] and Chloro Controls [Chloro Controls (India) (P) Ltd. v. Severn Trent Water Purification Inc., (2013) 1 SCC 641 : (2013) 1 SCC (Civ) 689] and observed that Sukanya Holdings [Sukanya Holdings (P) Ltd. v. Jayesh H. Pandya, (2003) 5 SCC 531] was not overruled by Chloro Controls [Chloro Controls (India) (P) Ltd. v. Severn Trent Water Purification Inc., (2013) 1 SCC 641 : (2013) 1 SCC (Civ) 689].”*

*(emphasis in original)*

56. *This Court, thus, in the above cases has noticed that amendments are expressed to apply notwithstanding any prior judicial precedents, but the scope of amendment under Section 8(1) was confined to three categories as has been noted in para 28 of Ameet Lalchand Shah v. Rishabh Enterprises [Ameet Lalchand Shah v. Rishabh Enterprises, (2018) 15 SCC 678 : (2019) 1 SCC (Civ) 308 : AIR 2018 SC 3041]. Amendments under Section 8, thus, were aimed to minimise the scope of judicial authority to refuse reference to arbitration and only ground on which reference could have been refused was that it prima facie finds that no valid arbitration agreement exists. Notwithstanding any prior judicial precedents referred to under Section 8(1) relates to those judicial precedents, which explained the discretion and power of judicial authority to examine various aspects while exercising power under Section 8.*

57. *The legislative intent and object were confined to only above aspects and was not on those aspects, where certain disputes were not required to be referred to arbitration. Can it be said that after amendment under Section 8(1), the law laid down by this Court in reference to Section 2(3), where large number of categories have*

*been held to be non-arbitrable has been reversed or set at naught. Neither any such legislative intendment was there nor any such consequence was contemplated that law laid down by this Court in context of Section 2(3) has to be ignored or reversed.*

58. *While carrying out amendment under Section 8(1) of the 1996 Act, the statutes providing additional remedies/special remedies were not in contemplation. The legislative intent is clear that judicial authority's discretion to refuse arbitration was minimised in respect of jurisdiction exercisable by judicial authority in reference to Section 8. The amendment was also aimed to do away with special or additional remedies is not decipherable from any material. The Law Commission 246th Report, the Statement and Objects of Bill and the Notes on Clauses do not indicate that amendments were made for overriding special/additional remedies provided under different statutes. In the event, the interpretation as put by the learned counsel for the petitioner is accepted, Section 8 has to be read to override the law laid down by this Court in reference to various special/additional jurisdictions as has been adverted to and noted in the judgment of this Court in *Booz Allen & Hamilton Inc. [Booz Allen & Hamilton Inc. v. SBI Home Finance Ltd., (2011) 5 SCC 532 : (2011) 2 SCC (Civ) 781]* which was never the intent of amendment in Section 8.”*

53. In this context, it would be useful to refer to a judgment of the Calcutta High Court in ***Lindsay International Private Limited and Ors. v. Laxmi Niwas Mittal and Ors., MANU/WB/0045/2022,*** where the Court held as under and I am persuaded to follow:-

*“30. The recommendation of the Law Commission of discouraging reference where the parties to the action, who are not the parties to the arbitration agreement, are necessary parties to the action, read with the Note referring to Sukanya Holdings, did not serve as a trailer in the final cut of the 2016 Amendment. The legislature, in fact, jettisoned the entire portion on “necessary parties” as well as Sukanya Holdings to declare, with unequivocal intent, that a judicial authority shall refer the parties to arbitration “notwithstanding any judgment, decree or order of the Supreme Court or any Court”. The amended section 8 hence does not contain any remnant of the recommendation with reference to Sukanya Holdings and has thrown out any impediment in connection with the dictum in Sukanya Holdings, or any other judicial pronouncements before the amendment, in its entirety. (Ref : Emaar MGF)*

31. *The dictum in Sukanya Holdings that bifurcation of causes of action and parties cannot be permitted in adjudicating an application under section 8 has been rejected in N.N. Global (see the preceding section of this judgment). Vidya Drolia also cannot also be used as a proposition to support the plaintiffs' argument that the entire cause of action in the suit must be capable of being referred to arbitration in a section 8 application. In fact paragraph 225 of*

*Vidya Drolia recognizes that judicial interference at the reference stage has been substantially curtailed and the 2015 amendment has altered the structure of the Act to make it pro-arbitration. Paragraph 154.3 of the said judgment further reinforces the principle of severability, competence-competence and that the Arbitral tribunal is the preferred first authority to determine all questions of non-arbitrability. In paragraph 244.4, the advice of the Supreme Court is “when in doubt, do refer”.*

32. *The conclusion, without a doubt, is that Sukanya Holdings is no longer a relevant factor for the Court to consider at the stage of reference in an application under section 8 of the Act. The Court is not even under a mandate, post amendment, to adjudicate on the bifurcability of the causes of action or the presence of parties who are necessary parties to the action but not to the arbitration. The only brake in the momentum of reference is the court finding, prima facie, that no valid arbitration agreement exists.*

33. *The rejection of the Law Commission's recommendation in the Note to section 8 with regard to Sukanya Holdings was considered in Emaar MGF where the Supreme Court opined that pronouncements made prior to the amendment were not to be adhered to as the legislative intent was to move away from the conditions in P. Anand and Sukanya Holdings. The Court proceeded to explain that the object of the amendment was to minimise the scope of the judicial authority to refuse reference to arbitration.*

34. *Besides, the argument that Sukanya Holdings continues to hold the field would, in effect, result in the amended section 8 looking somewhat like this;*

*“... notwithstanding any judgment, decree or order of the Supreme Court or any Court save and except the judgment in Sukanya Holdings...” (the added bit is underlined).*

35. *This Court is of the view that adding to the plain and unambiguous words of the provision in the pretext of interpretation cannot be the permitted course of action.*

36. *It is also important to bear in mind that the issue is not whether the dictum in Sukanya Holdings is correct, as the law laid down in that decision may continue to be relevant for deciding applications under section 8 filed prior to the amendment of 2016 but not where the suit or application is filed after 23.10.2015 when the amendment came into force (underlined for emphasis).”*

54. Reliance was placed on ***Calcom Cement India Limited*** (*supra*), to contend that mere filing of a Section 8 application does not oust the jurisdiction of the Court and it can pass an interim order to preserve the rights of the parties until application filed under Section 8 of the 1996 Act is decided on merits. This judgment is inapplicable at

this stage since the Court is making a reference to arbitration, terminating the suit proceedings and it shall be open to the Plaintiff to invoke the jurisdiction of the Arbitral Tribunal to seek interim relief in accordance with the provisions of the 1996 Act.

55. Reliance was also placed on the judgment of the Supreme Court in *M.R Engineers & Contractors Pvt. Ltd. (supra)*, to argue that Section 7(5) of the 1996 Act stipulates that there has to be a conscious acceptance of the arbitration clause from another document, by the parties, as part of their contract, to bind the parties. Learned Senior Counsels for the Plaintiff further argued that as the Sale Deed does not make any reference to the MOFS and there has been no attempt made by the parties to incorporate the arbitration clause in the Sale Deed, the subject matter is within the jurisdiction of this Court and not arbitrable in nature. This argument, in my view, is liable to be rejected in view of the findings in the earlier part of the judgment that the Sale Deed was executed in furtherance of the MOFS and as envisioned in it and both being linked and inseparable, arbitration was the intended and consciously chosen forum for dispute resolution between the parties, pertaining to alleged breach of the covenants of MOFS.

### **CONCLUSION**

56. As a result, the application for referring the disputes arising in the suit to arbitration is allowed and the parties are referred to arbitration. Needless to state that the parties would be at liberty for appointing Arbitrator(s), in accordance with the covenants of the MOFS and the arbitration clause incorporated therein.

57. Application stands disposed of.

### **CS (COMM) 561/2022 & I.A. 12874/2022 (for stay)**

58. In view of the order passed above, nothing survives for further adjudication in the suit. Plaintiff shall be at liberty to seek

interlocutory/interim protection in accordance with Section 17 of the 1996 Act in accordance with law.

59. Suit and application stand disposed of.

**I.A. 3188/2023**

60. This application is filed by the Plaintiff under Order XIII-A Rules 3 and 6(1)(a) of CPC, as amended by the Commercial Courts Act, 2015, seeking a decree on the basis of certain undertakings given by Defendant No.1 in an Appeal before the Division Bench in FAO(OS)(COMM) 280/2022, arising out of proceedings in O.M.P.(I)(COMM) 261/2022. It is averred in the application that the said petition was filed by Defendant No.1 before a Co-ordinate Bench for interim relief, which was not granted, leading to filing of an Appeal. Before the Division Bench, Defendant No.1 has undertaken not to use SUPERON in India and has also received metrological approvals for sale of the products under STARBLAZE with changed packaging etc. and thus, the suit deserves to be decreed.

61. Application was opposed by the Defendants on the ground that this Court having no jurisdiction, cannot decree the suit.

62. As this Court is referring the matter to arbitration, no order can be passed on this application and it is left to the Arbitral Tribunal, if and when constituted, to decide if any disputes stand resolved between the parties and on what aspects and to what extent.

63. Application stands disposed of, with the aforesaid observations.

**JYOTI SINGH, J**

**APRIL 10, 2023/shivam/rk**