



Arbitration Case Insights

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Supreme Court emphasises the requirement of arbitral awards to be reasoned¹

Brief Facts

DCM Shriram Aqua Food Limited (“DCM”) and M/s Crompton Greaves Limited (“Respondent”) entered into a contract for setting up an aquaculture unit by DCM. The Respondent invited tenders for related construction work and M/s Dyna Technologies Pvt. Ltd. (“Appellant”) submitted its proposal, estimate and quotation. Accordingly, the Respondent issued letter of intent dated 25 July 1994 to the Appellant. Thereafter, pursuant to certain inquiries and clarifications made by the Appellant, the Respondent amended the contract and issued a work order on 15 November 1994. However, on 5 January 1995, the Respondent instructed the Appellant to discontinue the work. Owing to this, the Appellant raised claims for compensation of premature termination of contract and invoked arbitration. The arbitral tribunal made the award dated 30 April 1998 (“Award”) wherein it allowed the claim for losses due to unproductive use of machineries. The same was challenged by the Respondent under Section 34 of the Arbitration and Conciliation Act, 1996 (“Act”) before the Single Judge of the Madras High Court and was dismissed. Aggrieved by the said decision, the Respondent preferred an appeal under Section 37 of the Act against the order before the Division Bench of the Madras High Court. The Division Bench partly allowed the appeal and set aside the Award with respect to the claim for losses due to unproductive use of machineries. The said judgement was assailed before the Supreme Court.

Issues

Issue (i): Whether the Award relating to the claim for losses due to unproductive machineries was reasoned?

Issue (ii): Whether the Award can be sustained?

Judgment

Issue (i): The Supreme Court noted three characteristics of a reasoned award that can be fathomed, which are namely proper, intelligible and adequate. If the reasoning in the tribunal’s award is improper, it reveals a flaw in the decision making process. If the challenge to an award is based on impropriety or perversity in the reasoning, then it can be challenged strictly on the grounds provided under Section 34 of the Act. If the challenge to an award is based on the ground that the same is unintelligible, it would be equivalent to providing no reasons at all.

In relation to adequacy of reasons, it was held that while exercising jurisdiction under Section 34, the court has to adjudicate the validity of the award based on the degree of particularity of reasoning required having regard to the nature of issues falling for consideration. The degree of particularity cannot be stated in a precise manner as the same would depend on the complexity of the issue.

Even if the court concludes that there were gaps in the reasoning for the conclusions reached by the tribunal, the court needs to have regard to the documents submitted by the parties and the contentions raised before the tribunal so that awards with inadequate reasons are not set aside in a casual and cavalier manner. Therefore, courts are required to be careful while distinguishing between inadequacy of reasons in an award and unintelligible awards.

In relation to the Award, the Supreme Court held that it was confusing and had jumbled the contentions, facts and reasoning without appropriate distinction. The Court further noted that the Award abruptly concluded

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at the end of the factual narration without providing any reasons and that it coupled the factual narration with the claimant's arguments. The Supreme Court further added that a close reading of the Award is required to separate the factual narration and the claimant's arguments since the tribunal mixed the arguments with the premise it intended to rely upon for the claimant's claim. The reasons for the Respondent's defence were also found to have been reduced. Accordingly, the Court held that the Award lacked legal reasoning.

Issue (ii): In view of the Award failing to meet the test of legal reasoning, the Award was held to be unintelligible and therefore, unsustainable. Accordingly, the Respondent was directed to pay a sum of INR 30,00,000/- to the Appellant in full and final settlement of the claim in question within a period of eight weeks after which interest at the rate of 12% p.a. will be applicable.

Analysis

On first impression, while the Supreme Court's decision noted that arbitral awards should not be interfered with in a casual and cavalier manner, it emphasised that if the court comes to a conclusion that the perversity of the award goes to the root of the matter, interference would be justified. This decision could potentially justify greater scope of

interference by courts in arbitral awards as the decision not only provides for interference when there is absence of reasoning but also when the reasoning is inadequate.

While the Supreme Court highlighted the importance of arbitral awards being reasoned and outlined the parameters that are required to be established for meeting the threshold of a reasoned award, the required degree of particularity in reasoning was left open to be considered by courts depending upon the complexity of the matter. Such flexibility may lead to increased subjectivity as every court would be entitled to determine the parameters for what constitutes a reasoned award.

While the Award was held to be unsustainable for want of reasoning, in an attempt to put an end to the 25-year old litigation, the Court directed the Respondent to pay certain sums to the Appellant. However, the said direction was issued even though the Court did not deem it fit to supplement the legal reasoning in the Award due to the complexity of the subject. This decision may raise further issues regarding scope of interference by courts and the manner in which powers may be exercised by a court if an award is found to be unreasoned.

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1 Authored by Smarika Singh, Partner, Shreya Sircar, Principal Associate and Yashna Mehta, Associate; *M/s. Dyna Technologies Pvt. Ltd. v. Crompton Greaves Ltd.*, Civil Appeal No. 2153 of 2019, Supreme Court of India, 2019 SCC OnLine SC 1656, judgment dated 18 December 2019.

Quorum: N.V. Ramana, Mohan M. Shantanagoudar and Ajay Rastogi, JJ.

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