

Supreme Court of India

Kudremukh Iron Ore Co. Ltd. vs Fair Growth Financial Services ... on 6 May, 1994

Equivalent citations: 1994 81 CompCas 551 SC, JT 1994 (3) SC 570, 1994 (2) SCALE 854, (1994) 4 SCC 246, 1994 (1) UJ 767 SC, (1994) 3 UPLBEC 1457

Bench: M Venkatachaliah, S Mohan

JUDGMENT

1. M/s. Kudremukh Iron Ore Company Limited, a Government company, prefers this appeal under Section 10 of the Special Court [Trial of Offences Relating to Transactions in Securities] Act, 1992 (for short 'the Act') against the order dated 26th August, 1993 made by the Special Court at Bombay in Miscellaneous Petition No. 58/1993. By the said order the Special Court held that in relation to the transactions referred to and relied on by the appellant, it had no jurisdiction to exercise powers under the 'Act'.

2. The appellant on various dates in July, 1992 deposited with the Andhra Bank Financial Services Ltd. under what are called inter-corporate deposits aggregating to about Rs. 55 crores. The deposits were to carry interest ranging from 21% to 22%. It would appear that the Andhra Bank Financial Services Ltd. had, in turn, invested large sums of money said to be in the order of Rs. 240 crores, with a company called the Fair growth Financial Services Ltd. When the appellant's deposits with M/s. Andhra Bank Financial Services Ltd. fell due for repayment, the latter pleaded its inability to make immediate repayment on the ground that its own funds were locked-up with the Fair growth Financial Services Ltd.

3. The said Fair growth Financial Services Ltd. was a 'notified person' under Section 3(2) of the Act and accordingly the Special Court under Section 11 of the Act had jurisdiction to direct repayment of its liabilities. The appellant, it is not disputed, had no privity of contract with the said Fair growth Financial Services Ltd. However, on the stand of the Andhra Bank Financial Services Ltd. that its funds were, in turn, locked-up with and retained by the said Fair growth Financial Services Ltd., the appellant moved the Special Court for a direction that the securities of the Fair growth Financial Services Ltd. in the hands of the custodian be directed to be sold and the proceeds disposed of in favour of the Andhra Bank Financial Services Ltd. and that out of the sums so found payable, the sum of Rs. 54 crores which was then due to the appellant together with accrued interest, be appropriated and applied for the discharge of the appellant's claims.

4. The Special Court by its order dated 26th August, 1993, now under appeal, declined to entertain the appellant's prayer. It said:

In my view, this Court can only adjudicate on claim in respect of properties belonging to notified parties. The petitioner's claim against the 2nd Respondent does not fall within the purview of the jurisdiction of this Court. This court has no jurisdiction over such claims or dispute. It is for the Petitioners to adopt such proceedings as they may be advised in the normal civil or criminal courts. Petition disposed off on ground that this Court has no jurisdiction.

5. Sri Ramaswami Iyenger, learned Counsel for the appellant, urges that when financial transactions are so inextricably inter-woven it is unrealistic to limit the identity of the 'notified person' so narrowly. What determines the jurisdiction of the Special Court, says counsel is not a mere technical, distinctive legal entities but the composite character which the degree of the consumption of the funds impart to them. Learned counsel submits that, in this case, having regard to the nature of the large scale involvement of Andhra Bank Financial Services Ltd. and its funds with the Fair growth Financial Services Ltd., the purpose of the 'Act' would not be fulfilled by ignoring the character of these financial inter-relations.

6. We are afraid, it may not necessary to go into this proposition as to what extent and nature of inter-dependence may render the two apparently distinct legal entities to be, reckoned as one for purposes of the Act, For one thing, the Special Court itself was not treated to any such argument. Secondly, no factual foundations necessary to compel an inference necessary to enable a piercing of the veil were laid before the Court. We do not, therefore, propose to examine this proposition purely as a matter of law. The fact remains that the 'notified person' under Section 3(2) of the Act was the Fair growth Financial Services Ltd. and no privity between that 'notified person' and the appellant having been established, the view taken by the Special Court as to jurisdiction seems to us to be unexceptionable on the facts and the circumstances of this case.

7. Indeed, Section 11 of the Act exclusively empowers the Special Court to give directions in the matter of the property of a notified person. The foundation for the jurisdiction under Section 11 to deal with any such property is that it should have been a property under attachment. Section 3(3) of the Act provides that attachment of property, whether movable or immovable, or both, belonging to the notified person becomes effective simultaneously with the issue of the notification under Section 3(2) of the Act. It is with respect to this attached property that powers under Section 11 of the 'Act' could be exercised. We might, here, take a look at Section 11 of the Act:

11. Discharge of liabilities.- (1) Notwithstanding anything contained in the Code and any other law for the time being in force, the Special Court may make such order as it may deem fit directing the Custodian for the disposal of the property under attachment.

(2) The following liabilities shall be paid or discharged in full, as far as may be, in the order as under:-

(a) all revenues, taxes, cesses and rates due from the persons notified by' the Custodian under Sub-section (2) of Section 3 to the Central Government or any State Government or any local authority;

(b) all amounts due from the person so notified by the Custodian to any bank or financial institution or mutual fund;

(c) any other liability as may be specified by the Special Court from time to time.

The reasoning implicit in the order under appeal is that the power to order payment of amounts due from a 'notified person' 'to any bank or financial institution or mutual fund' presupposes and proceeds on the existence of obligations inter-se between the parties based on contractual, statutory or other legally recognised rights and that such vinculum juris is absent as between the appellant on the one hand and the Fair growth Financial Services Ltd. on the other. What is further implicit is that the appellant which is a stranger to the consideration respecting transactions between the Andhra Bank Financial Services Ltd. And the Fair growth Financial Services Ltd., cannot seek to enforce the obligations there under. The remedy of the appellant against its debtor which itself is not a notified person, lies in the ordinary courts of the land. This reasoning is not shown to be unsound.

8. The appeal, is, accordingly, dismissed without any order as to costs.

LA No. 1/93:

In view of the dismissal of the main appeal, LA. No. 1/93 does not survive and is, accordingly, dismissed.