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Dispute Resolution & ADR

OCTOBER 2026

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Assets of a dissolved partnership cannot be retained by a successor firm without settling the former partners' entitlements

V Sumitra Reddy v. K Ranganadha Reddy

Supreme Court of India | 2026 INSC 979

In a significant decision, the Supreme Court clarified that a partner's entitlement to undistributed assets of a dissolved partnership cannot necessarily be restricted to their value on the date of dissolution. It further held that a newly constituted partnership cannot retain assets of the dissolved firm without settling the former partners' entitlements.

Unlike partnerships with a fixed duration or LLPs, a partnership at will may be dissolved by any partner through written notice, triggering the settlement and distribution of the firm's assets. This distinction has significant commercial implications, as the remaining partners cannot simply continue using those assets through a new partnership without settling the former partners' entitlements. Consequently, even a single partner's decision to dissolve the firm may affect ownership of valuable business assets, disrupt operations and necessitate their liquidation in the absence of an agreed settlement.

SUMMARY OF FACTS

Viraj Constructions, a partnership at will, owned, among other assets, a parcel of land in Hyderabad.

In October 1983, KLN Reddy, a partner who held a 25% share, issued a notice seeking dissolution of the firm and settlement of accounts. Upon no response, he instituted a suit for rendition of accounts.

Meanwhile, the remaining partners continued the business through a new partnership and retained the Hyderabad land without settling KLN Reddy's entitlement.

In the suit, the High Court recognised the dissolution of the firm with effect from October 18, 1983, and directed settlement of accounts, raising the issue of the date of the valuation of land for Reddy's share.

DECISION OF THE COURT

The Supreme Court held that upon dissolution of a partnership firm, a partner's entitlement to its undistributed assets cannot be restricted to their historical value on the date of dissolution.

A partnership at will may be dissolved by written notice, effective from the date specified therein or, in its absence, the date of communication.

A newly constituted partnership cannot retain or utilise the assets of a dissolved firm without settling the former partners' entitlements. Upon dissolution, the firm's assets must be applied towards discharging liabilities, repaying amounts due to partners, and distributing the surplus according to their respective shares.

Assets may be retained through an agreed settlement at market value, failing which they must be liquidated and the proceeds distributed proportionately. In the present case, the new partnership had neither purchased the Begumpet land nor settled KLN Reddy's share, rendering its retention of the property impermissible.

For valuation, the Court distinguished between the right to receive profits earned until dissolution and the right to receive a proportionate share in the remaining assets. While the date of dissolution determines the period for calculating profits and losses, it does not necessarily determine the valuation date of assets awaiting distribution.

Valuing the land at 1983 rates, despite its subsequent appreciation, would unfairly prejudice KLN Reddy and the prevailing valuation was upheld for distribution of the proceeds after discharging liabilities.

Absent a designated seat, the venue of arbitration does not displace the jurisdiction clause

Mahanadi Coalfields Ltd v. GSCO Infrastructure Pvt Ltd

Supreme Court of India | 2026 INSC 1038

The Supreme Court has held that in the absence of an agreed arbitral seat, the mere conduct of arbitration at a particular venue does not displace the jurisdiction of Courts identified under the contract.

The ruling reinforces the importance of contractual jurisdiction clauses in determining the appropriate forum for arbitration-related proceedings, particularly where the parties have not expressly designated a seat. For businesses undertaking projects across different locations, conducting hearings elsewhere or obtaining an arbitrator's appointment from a High Court situated in another city does not automatically alter the agreed jurisdictional arrangement.

Parties should expressly identify the arbitral seat and ensure that it is consistent with their jurisdiction clauses to avoid disputes over which Courts may entertain challenges to awards.

SUMMARY OF FACTS

Mahanadi Coalfields Ltd (MCL) awarded a contract to GSCO Infrastructure Pvt Ltd (GSCO) for excavation and transportation works in Sundargarh, Odisha. Although the contract contained no arbitration clause, it stipulated that contractual disputes would be subject to the jurisdiction of Courts where the work was executed.

Following disputes concerning contractual payments, GSCO approached the Orissa High Court, which referred the disputes to a sole arbitrator upon recording the parties' consent. The arbitral proceedings were conducted at Cuttack, Odisha, culminating in an award in GSCO's favour.

MCL challenged the award under Section 34 of the Arbitration and Conciliation Act, 1996 (Act), before the Courts at Sundargarh, Odisha.

GSCO challenged the jurisdiction of the Sundargarh Courts, contending that since the arbitrator had been appointed by the High Court situated at Cuttack and that the proceedings were conducted there, Cuttack was the juridical seat of arbitration according exclusive jurisdiction to the Courts at Cuttack.

The Orissa High Court accepted this contention. Aggrieved, MCL approached the Supreme Court.

DECISION OF THE COURT

The Supreme Court held that mere conduct of arbitral proceedings at a particular location does not, by itself, establish that location as the juridical seat of arbitration. In the absence of an express designation or agreement identifying Cuttack as the seat, its use as a venue for the arbitrator's convenience did not confer exclusive jurisdiction upon the Courts there.

Appointment of an arbitrator by a High Court does not automatically designate the city where that High Court is situated as the seat of arbitration. A High Court exercises jurisdiction throughout its territorial limits, and the competent District or Commercial Courts within those limits may entertain challenges to arbitral awards.

Moreover, the contractual terms expressly identified the Courts where the work was executed as having jurisdiction over disputes. Since the work was undertaken at Sundargarh, the Courts at Sundargarh were competent to entertain MCL's challenge under Section 34 of the Act.



Fraudulent initiation of insolvency proceedings does not automatically terminate CIRP

Orris Infrastructure Pvt Ltd v. Rakesh Kumar Gupta

Supreme Court of India | 2026 INSC 1070

The Supreme Court has ruled that while admission of insolvency proceedings initiated through fraud or collusion may be recalled, such findings do not automatically require termination of the Corporate Insolvency Resolution Process (CIRP).

The ruling protects the collective interests of creditors and other stakeholders from being defeated solely by misconduct at the initiation stage. For creditors, homebuyers, and prospective resolution applicants, it provides greater certainty that their participation in an ongoing CIRP will not necessarily be rendered ineffective by subsequent findings of fraud. However, continuation remains subject to an independent assessment of stakeholder interests. Affected parties should, therefore, actively participate in such proceedings and maintain records demonstrating the legitimacy of their claims and the commercial benefits of continuing the resolution process.

SUMMARY OF FACTS

Orris Infrastructure Pvt Ltd (Orris) entered into a development agreement with Three C Shelters Pvt Ltd (Three C) for a real estate project. Following delays in construction, homebuyers initiated proceedings before various forums seeking relief against Three C.

Meanwhile, Straight Edge Contracts Pvt Ltd (Straight Edge), claiming to be an operational creditor, initiated CIRP against Three C under Section 9 of the Insolvency and Bankruptcy Code, 2016 (Code). The application was admitted on the basis of an affidavit filed by a director of Three C acknowledging the alleged debt.

Orris and other stakeholders challenged the CIRP, alleging that it had been initiated through fraud and collusion between Straight Edge and Three C. The National Company Law Tribunal (NCLT) found that the alleged operational debt was fictitious and that the proceedings had been initiated collusively, but declined to recall the admission order.

On appeal, the National Company Law Appellate Tribunal (NCLAT) set aside the entire CIRP. Aggrieved by its termination, Orris and other stakeholders approached the Supreme Court.

DECISION OF THE COURT

The Supreme Court held that the NCLT may recall admission of insolvency proceedings initiated through fraud or collusion, but such recall does not automatically require termination of the CIRP.

Initiation of CIRP under the Code depends on certain foundational or jurisdictional facts, including the existence of debt. Fraudulent representation of such facts vitiates the assumption of jurisdiction, empowering the NCLT to recall admission, exclude the collusive applicant, and initiate action under Section 65 of the Code, which penalises fraudulent initiation of insolvency proceedings.

However, upon admission, CIRP transforms from proceedings between the initiating creditor and corporate debtor (*in personam*) into proceedings *in rem* (against the world at large), involving all creditors and stakeholders. Consequently, the initiating creditor no longer controls the process, which serves the collective objective of resolving corporate insolvency. Therefore, even where admission was fraudulently obtained, the NCLT must independently determine whether continuation would serve legitimate stakeholder interests, after hearing the resolution professional, the Committee of Creditors, and other affected parties.

Accordingly, the Supreme Court remanded the matter to the NCLT to determine whether proceedings should continue, considering all relevant circumstances, including the interests of homebuyers and ownership of the underlying project.

Belated payment of deficient stamp duty alone does not render arbitral awards enforceable

URC Construction Pvt Ltd v. Airports Authority of India

Delhi High Court | 2026 SCC OnLine Del 6909

The Delhi High Court has clarified that deficient stamp duty on an arbitral award cannot be cured through unilateral payment after the 1-month period prescribed under Section 32(3) of the Indian Stamp Act, 1899 (Stamp Act), without following the statutory impounding procedure and applicable penalty requirements.

The decision highlights the interplay between the Arbitration and Conciliation Act, 1996 (Arbitration Act) and the Stamp Act, establishing that the timelines for challenging an award (3 months and an additional 30 days) do not suspend the obligation to pay stamp duty. This creates a practical dilemma for the award-holder awaiting the outcome of a challenge under Section 34 of the Arbitration Act, as paying stamp duty upfront may involve a separate and potentially cumbersome refund process if the award is subsequently set aside, whereas deferring payment may attract penalties if enforcement is eventually pursued.

Since the Collector's discretion to waive or reduce penalties does not guarantee relief merely because a challenge was pending, businesses must weigh these competing financial and procedural risks when deciding whether to stamp an award before the challenge is resolved.

SUMMARY OF FACTS

URC Construction Pvt Ltd (URC) held an arbitral award against the Airports Authority of India (AAI) that initially bore insufficient specific stamp duty.

URC subsequently deposited the balance deficient stamp duty during enforcement proceedings under Section 36 of the Arbitration Act before the Delhi High Court. Notably, this deposit was beyond the 1-month period within which the Collector may endorse an instrument executed in India as duly stamped as provided under proviso (b) to Section 32(3) of the Stamp Act.

This delay raised the issue of whether belated payment of deficient stamp duty, without complying with the statutory procedure and applicable penalty requirements prescribed under the Stamp Act for such delay, was sufficient to keep the arbitral award enforceable.

DECISION OF THE COURT

The Delhi High Court held that while inadequate stamping is a curable defect, unilateral payment of deficient stamp duty after the prescribed period does not, by itself, render an arbitral award enforceable without compliance with the statutory procedure and applicable penalty requirements.

Under Section 17 of the Stamp Act, stamp duty becomes payable upon execution of an arbitral award, irrespective of when enforcement is sought. Beyond the 1-month period under Section 32(3), the Collector becomes *functus officio* to endorse an instrument as duly stamped. Thereafter, an insufficiently stamped award must be impounded under Section 33 and dealt with under Sections 35, 38, and 40, which prescribe the recovery of deficient duty and penalties, either by the competent authority or upon reference to the Collector.

Although inadequate stamping is not a ground for setting aside an award under Section 34 of the Arbitration Act and becomes relevant only during the award's enforcement proceedings, this does not postpone the liability to pay stamp duty.

Regarding penalties, the Court clarified that while an authority acting under Section 35 cannot reduce the prescribed penalty, the Collector enjoys discretion under Section 40 to determine its quantum. *Bona fide* pendency of challenges to the award under the Arbitration Act may justify waiver or imposition of a minimal penalty. Maximum penalties should not be imposed mechanically, particularly in the absence of deliberate evasion or fraud.

To streamline enforcement, the Court directed that Section 36 petitions must disclose the award date, stamping date, awarded amount, and applicable duty, supported by proof of payment. Insufficiently stamped awards must be impounded, and petitions lacking requisite proof should not be listed for substantive consideration until compliance. However, existing interim protection may continue pending rectification.



Section 37 appeals cannot be converted into interim relief applications before arbitral tribunals

Union of India v. Hariom Projects Pvt Ltd

Supreme Court of India | 2026 SCC OnLine SC 1996

The Supreme Court has rejected the transfer of appeals against Court orders granting or refusing interim relief under Section 9 of the Arbitration and Conciliation Act, 1996 (Act) to an arbitral tribunal as applications under Section 17 (interim relief by the arbitral tribunal), even with the parties' consent.

The ruling reinforces the distinct roles of Courts and arbitral tribunals in granting and reviewing interim protection. For businesses involved in long-term commercial contracts, particularly infrastructure, and construction projects, this distinction is important where contractual circumstances change during arbitration. Parties should assess whether existing interim relief continues to address their commercial interests and, where necessary, independently seek appropriate protection before the arbitral tribunal. This can help avoid procedural challenges and delays in securing effective interim relief.

SUMMARY OF FACTS

Hariom Projects Pvt Ltd (Hariom) was awarded a contract by the Union of India (UOI) for construction of administrative and training infrastructure at the National Defence Academy, Khadakwasla.

Disputes arose, and Hariom invoked arbitration and sought interim protection under Section 9 of the Act, including an injunction restraining UOI from terminating the contract. The interim protection was rejected, and Hariom appealed under Section 37 of the Act.

Hariom separately sought appointment of an arbitrator under Section 11. Pending these proceedings, UOI terminated the contract, which was temporarily stayed by the Bombay High Court.

Subsequently, while appointing a sole arbitrator with the parties' consent, the High Court directed that the pending Section 37 appeal (against the interim relief rejection) be transferred to the arbitral tribunal and treated as an application for interim relief under Section 17 of the Act. Aggrieved by this direction, UOI approached the Supreme Court.

DECISION OF THE COURT

The Supreme Court held that an appeal under Section 37 of the Act cannot be transferred to an Arbitral Tribunal and treated as an application under Section 17, even with the consent of the parties. The Court accordingly set aside the High Court's direction to that extent.

The Court clarified that Section 37(1)(b) confers appellate jurisdiction exclusively upon Courts to review orders granting or refusing interim measures under Section 9. Conversely, Section 17 empowers arbitral tribunals to grant interim measures during arbitration, but does not confer appellate or supervisory jurisdiction over orders passed by Courts under Section 9. The two provisions derive their authority from distinct statutory sources and cannot be used interchangeably.

The Court further observed that following constitution of the arbitral tribunal, the High Court could have permitted Hariom to independently seek interim measures under Section 17, rather than transferring the pending appeal. Moreover, since UOI had already terminated the contract, the original prayer seeking to restrain termination had become infructuous. Any subsequent interim protection would therefore have to be considered in light of the changed circumstances and the specific relief sought.

However, noting that the arbitral tribunal had already commenced proceedings, passed several orders and facilitated a supplementary agreement permitting continuation of the project, the Supreme Court declined to disturb its constitution or subsequent proceedings.

Failure to pay balance sale consideration may result in forfeiture of entire auction deposit

ASJ Finsolutions Pvt Ltd v. Vikram Bajaj

Supreme Court of India | 2026 SCC OnLine SC 2012

The Supreme Court has permitted enforcement of an e-auction clause permitting forfeiture of the entire deposited amount upon the bidder's failure to pay the balance sale consideration within the stipulated period, even though the Liquidation Process Regulations, 2016 do not expressly provide for any such forfeiture.

The decision reinforces certainty in liquidation auctions while highlighting the financial risks for prospective bidders, particularly where properties are sold on an 'as is where is' basis.[1] Businesses should undertake comprehensive legal and financial due diligence, assess disclosed title-related risks, and secure funding before bidding. These considerations are also relevant in determining whether a bidder's subsequent default was bona fide and whether circumstances justify relief against forfeiture or refund of deposited amounts.

SUMMARY OF FACTS

During liquidation proceedings under the Insolvency and Bankruptcy Code, 2016 (Code), ASJ Finsolutions Pvt Ltd (ASJ) emerged as the successful bidder for an e-auction of a property. Per the auction notice, the property was being sold on an 'as is where is' basis and entailed a pending dispute concerning the sale deed for a portion of the property.

The auction notice expressly provided that the entire amount deposited, including Earnest Money Deposit (EMD), could be forfeited if the successful bidder failed to pay the balance sale consideration within the stipulated timeline.

While ASJ deposited a certain amount, it did not make the balance payment within the stipulated time, and instead sought prior title deeds of the property, citing concerns regarding the pending dispute. Meanwhile, the property was auctioned afresh, and ASJ's deposited amount was forfeited.

The National Company Law Tribunal (NCLT) ordered a refund of the deposited amount, applying the 'triple test', which examines three circumstances to assess the bidder's default:

- Hidden agenda to rig or manipulate the auction
- Adequate financial capacity
- Existence of extraneous circumstances

This order was reversed in appeal, against which ASJ approached the Supreme Court of India.

DECISION OF THE COURT

The Supreme Court dismissed the appeal.

Where the e-auction notice expressly provides for forfeiture of both the EMD and other deposited amounts, such a condition may be enforced upon the successful bidder's failure to pay the balance sale consideration within the stipulated period, even though the Liquidation Process Regulations, 2016 do not provide for forfeiture in the event of failure to pay. Having voluntarily participated in the auction and deposited the amounts without protest, ASJ could not subsequently resile from the accepted conditions.

Further, as the property was offered on an 'as is where is' basis and the auction notice specifically disclosed the issue concerning the title deeds, ASJ could not subsequently rely on the non-availability of the title deeds as justification for withholding payment, particularly as ASJ raised this issue not during the bidding process, but only shortly before the deadline for payment of the balance consideration.

The Court also rejected the NCLT's reliance on the 'triple test', observing:

- Auction manipulation: ASJ's default had disrupted the time-bound liquidation auction and necessitated a fresh auction.
- Financial capacity: Repeated payment assurances did not establish actual financial capacity.
- Extraneous circumstances: The pending litigation and title deed concerns had already been disclosed.

[1] The property is sold in its existing condition and at its existing location, without any obligation on the seller to rectify defects, charges, or liabilities before sale. The purchaser is generally expected to undertake due diligence and accept the disclosed condition of the property, subject to the specific auction terms.

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