

IN THE HIGH COURT OF KARNATAKA AT BENGALURU

DATED THIS THE 9TH DAY OF FEBRUARY, 2024

BEFORE

THE HON'BLE MR. JUSTICE H.P. SANDESH

M.F.A. NO.6319/2014 (AA)

BETWEEN:

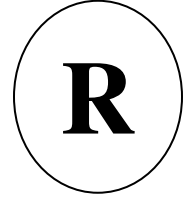
- 1 . M/S. ICDS LTD.,
(A COMPANY INCORPORATED UNDER
THE COMPANIES ACT, 1956)
BY ITS GPA HOLDER
SMT. NIRMALA PRABHAKAR
AGED ABOUT 49 YEARS
DEPUTY MANAGER
SYNDICATE HOUSE
MANIPAL-576104. ... APPELLANT

(BY MISS. ARCHANA NAIR, ADVOCATE FOR
SRI ANANDA SHETTY A., ADVOCATE)

AND:

- 1 . SRI BHASKARAN PILLAI
S/O RAMAN PILLAI
AGE: MAJOR
- 2 . SRI ANIL B. KUMAR
S/O BHASKARAN PILLAI
AGE: MAJOR

RESPONDENTS NO.1 AND 2
ARE R/A 'VENU NIVAS'
P.O PALEMADE, EDAKKARA,
MALAPPURAM DISTRICT
KERALA STATE-679331.



3 . SRI S. VITTALA SHETTIGAR
AGE: MAJOR
ARBITRATOR & ADVOCATE
UDUPI-576 101. ... RESPONDENTS

(BY SRI VIJAYKUMAR V., ADVOCATE FOR R1 & R2;
R3 - SERVED AND UNREPRESENTED)

THIS M.F.A. IS FILED U/S 37(1)(b) OF THE ARBITRATION AND CONCILIATION ACT, 1996, AGAINST THE JUDGMENT AND DECREE DATED 12.8.2014 PASSED IN ARBITRATION SUIT NO.18/2006 ON THE FILE OF PRINCIPAL DISTRICT JUDGE, UDUPI DISTRICT, UDUPI, ALLOWING THE SUIT FILED U/SEC 34 OF THE ARBITRATION AND CONCILIATION ACT.

THIS M.F.A. HAVING BEEN HEARD AND RESERVED FOR JUDGMENT ON 31.01.2024 THIS DAY, THE COURT PRONOUNCED THE FOLLOWING:

J U D G M E N T

Heard the learned counsel for the appellant and learned counsel for the respondent Nos.1 and 2.

2. The factual matrix of the case of the appellant herein before the Arbitrator is that the appellant herein has forwarded the claim petition dated 23.06.1999 with File No.AE-514 with connected documents to Sri B. Yogishwara Holla, Advocate, Udupi, with request to hold enquiry and to pass the award. The dispute was in connection with the Hire Purchase Agreement dated 27.08.1997 entered into between the parties i.e.,

appellant as owner, respondent No.1 as hirer and respondent No.2 as guarantor. The claim was for Rs.3,02,350/-. As the said Hire Purchase Agreement shows that the parties had agreed for arbitration of said Sri B. Yogishwara Holla, he entered reference on 20.07.1999 and conducted proceedings up to 15.05.2005. The Arbitrator also submits that due to age factors of earlier Arbitrator, the papers were entrusted to him on 08.07.2005 with a request to continue the enquiry, as the earlier Arbitrator Sri B. Yogishwara Holla is not inclined to continue on account of his old age and ill-health. The Hire Purchase Agreement at Clause No.VII(a) provides that the parties had agreed for arbitration also (in case of failure on the part of Sri B. Yogishwara Holla). So, he entered on the reference on 08.07.2005 and issued notices to the parties and also to their advocates. There was no objection by any of the parties to the notice and has maintained a separate order sheet with effect from 08.07.2005 and continued to enquire into the matter, since the earlier Arbitrator had already conducted proceedings, framed issues, recorded the evidence of appellant and the respondents. The only work that remained was to hear the arguments and to pass the award.

The respective parties represented through their respective counsels. The Arbitrator having heard the respective counsels, allowed the arbitration claim and directed the respondents to pay an amount of Rs.3,06,750/-.

3. Being aggrieved by the said award, arbitration suit was filed which is numbered as Arbitration Suit No.18 of 2006. Having perused the claim and also the grounds urged in the said arbitration suit filed under Section 34 of the Arbitration and Conciliation Act, 1996 and also on the basis of the pleadings, the following issues and additional issues are framed which reads as hereunder:

- "1. *Whether the plaintiffs prove that there was no arbitration agreement between the parties within the meaning of Section 7 of the Arbitration and Conciliation Act and they have not participated in the appointment of arbitrators and the alleged arbitration agreement has completely nullified the mandatory provisions of Section 11 of the Act, and the same is not binding on them, and the Arbitrator had no jurisdiction to decide the dispute between the parties?*

2. *Whether the plaintiffs prove that the Arbitral Tribunal has completely ignored the mandatory procedure prescribed under Chapter III of the Act, in particular Sections 11, 14, 15 and 16 of the Act?*
3. *Whether the plaintiffs prove that the 1st defendant is not entitled to recover any amount from them as awarded by the 2nd defendant?*
4. *Whether the award in question is liable to be interfered with by this Court? If so, to what extent?*
5. *To what relief or decree, the parties are entitled for?*

Additional Issues:

- “1. *Whether the plaintiffs prove that the alleged Hire Purchase Agreement has been materially altered without their knowledge and consent and the same is void contract and the same is not capable of being in force in view of the repeal of Arbitration Act, 1940?*
2. *Whether the plaintiffs prove that there was no dispute capable of being referred for arbitration and as such also the Arbitral Tribunal had no jurisdiction to decide the matter?*

3. *Whether the plaintiffs prove that the arbitral award is otherwise opposed to law, facts and circumstances of the case and the same is against to the public policy and principles of natural justice?"*

4. The parties have not led any evidence and the District Court, having heard the respective counsels, answered issue No.1 as 'partly affirmative', issue Nos.2 and 3 as 'does not arise for consideration' and set aside the award by answering issue No.4 as 'affirmative' and answered additional issue No.1 'partly in the affirmative' and additional issue Nos.2 and 3 as 'does not arise for consideration' and arbitration suit was allowed and set aside the award passed by the Arbitrator. However, liberty was reserved to the first defendant to file a civil suit for recovery of the amount due to it from the plaintiffs and claim benefit under Section 14 of the Limitation Act. Being aggrieved by the said judgment and decree passed in Arbitration Suit No.18 of 2006 dated 12.08.2014, the present miscellaneous first appeal is filed before this Court.

5. Learned counsel for the appellant in this appeal would contend that the learned Judge failed to consider that the mistake has occurred because of the printed Hire Purchase Agreement form where under, in Clause-VII (a), the Arbitration Act, 1940 is referred which was required to be amended by incorporating the Act, 1996. This mistake has occurred due to oversight in not amending that portion of the Clause-VII (a) and the mistake has occurred due to oversight. All the Clauses in Hire Purchase Agreement are totally in accordance with the provisions of the new Act. The entire proceedings were initiated and concluded by the appointed Arbitrator in accordance with the new Act and mere mentioning of a wrong provision will not make the award as invalid. The counsel would vehemently contend that the learned District Judge failed to consider that even in the absence of amendment to the Hire Purchase Agreement by way of replacement of the words 'Arbitration Act 1940', with the words 'Arbitration Act 1996' in view of the available words in the said clause "or any statutory amendment thereof", the entire proceedings is deemed to have been held under the Arbitration and Conciliation Act, 1996. It is also

contended that the learned District Judge failed to consider that the Hire Purchase Agreement at Ex.P1 is fully in consonance with Section 7 of the 1996 Act, as it fully complies with the requirement of Section 7 of the Act. The arbitration agreement need not be referred to any particular Act, no particular form of agreement is prescribed for the purpose and the Arbitrator is empowered to decide the matter under Section 16 of the Act, 1996.

6. The counsel would vehemently contend that the learned Judge has failed to consider that Ex.P1 and the proceedings took place, after coming into force of the new Act on 25.01.1996. Therefore, this proceedings cannot have the application of any provision of old Act or 1940 and the old Act was repealed and the Hire Purchase Agreement in the real sense is the agreement entered into as per the provisions of the New Act 1996 and the same could not have been entered into when old Act was not at all in force. It is contended that Hire Purchase Agreement at Ex.P1, though refers to 1940 Act, it also includes the words "or any statutory amendments thereof". Therefore,

there is no reason to say that the reference or the proceedings is invalid and not binding on the parties. The counsel also would vehemently contend that the decision relied upon by the learned District Judge in **THYSSEN STAHLUNION GMBH VS. STEEL AUTHORITY OF INDIA LTD.** reported in **AIR 1999 SC 3923** is not applicable to the facts of the case on hand, since in the case on hand, Hire Purchase Agreement is dated 27.08.1997 and the new Arbitration Act was in force as on that date. Hence, the very approach of the learned District Judge is erroneous and it requires interference of this Court.

7. Learned counsel for the appellant in her argument, relied upon the judgment in **PURUSHOTTAM, S/O. TULSIRAM BADWAIK VS. ANIL AND OTHERS** reported in **(2018) 8 SCC 95**. The counsel referring this judgment would vehemently contend that the Apex Court has discussed Sections 85, 7 and 8 of the Arbitration and Conciliation Act, 1996, wherein it is held that arbitration agreement incorrectly stipulating arbitration under the 1940 Act i.e., even after the 1996 Act had come into effect, not to render the entire agreement invalid. The Apex

Court has even taken note of its earlier judgment in **MMTC LTD. VS. STERLITE INDUSTRIES (INDIA) LTD.** reported in **(1996) 6 SCC 716**, wherein followed the judgment in **THYSSEN STAHLUNION GMBH VS. STEEL AUTHORITY OF INDIA LTD.** reported in **AIR 1999 SCC 3923**. The counsel referring this judgment would vehemently contend that the very approach of the learned District Judge is erroneous. Hence, it requires interference.

8. Per contra, learned counsel for the respondent Nos.1 and 2 in his argument would vehemently contend that the very contention of the learned counsel for the appellant cannot be accepted and in the objection statement itself filed before the Arbitrator, the appellant took the specific contention that arbitration clause inserted as per the Arbitration Act of 1940 cannot be enforced subsequent to coming into force of Central Act of 1996. The counsel would contend that the Arbitrator failed to consider this aspect of the matter, however, the learned District Judge, having taken note of the reference of old Act, rightly comes to the conclusion that the Arbitrator has no authority. Learned counsel also in his argument would

vehemently contend that the learned District Judge, taken note of the Hire Purchase Agreement at Ex.P1 which contains a arbitration clause at Clause No.VII (a) which reads as hereunder:

"Clause VII (a) – All disputes, differences and or claims arising out of this Hire Purchase Agreement shall be settled by arbitration in accordance with the provisions of the Indian Arbitration Act, 1940 or any statutory amendment thereof and shall be referred to the arbitration of Mr. B. Yogishwara Holla, Advocate, Udupi, or in case of his death, refusal, neglect or incapacity to act as an Arbitrator to the sold arbitration of Mr. S.V. Shettigar, Advocate, Udupi. The reference to the Arbitrator shall be within the Clauses, Terms and Conditions of this Agreement. The award given by the Arbitrator shall be final and binding on all the parties concerned".

9. The learned District Judge has also taken note of the judgment in **THYSSEN STAHLUNION's** case reported in **AIR 1999 SC 3923** and so also the judgment in **RAJAN KUMAR VERMA AND ANOTHER VS. SACHCHIDNAND SINGH** reported in **AIR 2006 PATNA 1** and extracted Para Nos.14 to

17 of the judgment and comes to the conclusion that those judgments are aptly applicable to the case on hand. The District Judge having considered the principles laid down in the judgments and also the contents of Ex.P1 i.e., Clause No.VII (a), rightly comes to the conclusion that the very arbitration under the provisions of repealed Act is not valid and therefore, the Arbitrator has no jurisdiction to decide the dispute involved between the parties and the District Judge has not committed any error in passing the judgment and hence, the question of setting aside the judgment in Arbitration Suit No.18 of 2006 does not arise.

10. Having heard the learned counsel for the appellant and learned counsel for the respondent Nos.1 and 2, the points that would arise for consideration of this Court are:

- (1) Whether the learned District Judge has committed an error in allowing the Arbitration Suit No.18 of 2006, considering Clause No. VII (a) at Ex.P1 and erroneously arrived at a conclusion that the arbitration is invalid and the Arbitrator has no jurisdiction to set aside the judgment and award.

(2) What order?

Point No.(1)

11. Having heard the learned counsel for the appellant and learned counsel for the respondent Nos.1 and 2, no dispute with regard to the fact that there was a Hire Purchase Agreement between the parties and it is also not in dispute that earlier, the arbitration was referred to one Sri B.Yogishwara Holla, Advocate, Udupi with a request to hold an enquiry and pass the award. It is also not in dispute that the issue involved between the parties was in connection with the Hire Purchase Agreement dated 27.08.1997 which was entered into between the appellant and the respondents i.e., the appellant as owner, respondent No.1 as hirer and respondent No.2 as guarantor. The claim was for Rs.3,02,350/-. It is also not in dispute that earlier Arbitrator issued notice and respective parties have entered appearance, completed their pleadings and thereafter, issues were framed and the earlier Arbitrator itself recorded evidence of the respective parties. Thereafter, the said Arbitrator was not inclined to continue on account of his old age and ill-

health. Hence, request was made to the new Arbitrator and he continued the arbitration proceedings from 08.07.2005 and heard the arguments of respective parties and passed the award directing the respondents herein to pay the amount of Rs.3,06,750/-. It is also not in dispute that being aggrieved by the said award, an arbitration suit is filed.

12. Having perused the arbitration proceedings, the respondents have also raised the defence before the Arbitrator that the arbitration clause inserted as per the Arbitration Act of 1940 cannot be enforced subsequent to coming into force of Central Act of 1996. It is also important to note that with regard to the said defence, framed additional issue No.1 whether Hire Purchase Agreement entered into between the parties under the Arbitration Act, 1940 after the said act was repealed is valid and binding on the parties. The Arbitrator, while answering additional issue No.1, taken note of the Clause No. VII (a) of Hire Purchase Agreement where there was reference to the arbitration as per the provisions of 1940 Act. The Arbitrator has also taken note of the intention of the parties at the time of agreement and

observed that intention of the parties at the time of agreement has to be looked into by reading the agreement between the lines and taken note of the very object of the Act shown in the opening sentence [to consolidate and amend the law]. So this act of 1996 is amendment in real sense, though replaced in the place of earlier Act of 1940 and Section 7 of Arbitration Act, 1996 is included. The Arbitrator comes to the conclusion that there is no particular form of agreement, intention of parties and intention of parties is the basic need. It is also observed that the Arbitrator is empowered to decide his own jurisdiction as per Section 16 of the Act, 1996 also. The Arbitrator has also taken note of Section 6 of General Clauses Act referring the judgment of the Apex Court reported in **AIR 1955 SC 84**. The line of enquiry would not be whether it manifests an intention to destroy them for unless such an intention is manifested by the new Act, the rights and liabilities under the repealed Act will continue to exist by force of Section 6 of General Clauses Act. The Arbitrator also taken note of the Clause i.e., Hire Purchase Agreement which refers to 1940 Act, it also adds at Clause VII (a) "or any statutory amendments thereof". So there is no

reason to say that the whole arbitration clause is invalid and not binding on the respondents. Having considered the same, the Arbitrator comes to the conclusion that Hire Purchase Agreement at Ex.P1 is valid and binding on the respondents and answered the issue in the 'affirmative'.

13. Now, this Court has to look into the reasoning given by the learned District Judge in the Arbitration Suit No.18 of 2006, since the very same grounds are urged in the arbitration suit as well. The District Judge has also taken note of the contents of Ex.P1 i.e., Clause No. VII (a) and having perused this Clause, it is very clear that all disputes, differences and or claims arising out of Hire Purchase Agreement shall be settled by arbitration in accordance with the provisions of the Indian Arbitration Act, 1940 or any statutory amendment thereof and shall be referred to the arbitration and name of the Arbitrator, who had to conduct the proceedings is mentioned and so also, the name of the subsequent Arbitrator in case of his death is also mentioned in the said Clause.

14. Having considered the said Clause, the parties to Ex.P1 i.e., Hire Purchase Agreement have entered into agreement containing the arbitration Clause for referring the disputes, differences and claims arising out of it to the Arbitrator and shall be settled in accordance with the provisions of the Indian Arbitration Act, 1940 or any statutory amendments thereof. It is also not in dispute that new Act came into force on 25.01.1996 and it is also not in dispute that Clause No.VII (a) refers to old Act. But, the fact is that parties entered into Hire Purchase Agreement i.e., Ex.P1 on 27.08.1997 and reference was made in the year 1999. The learned District Judge in Para No.9 of the judgment, referred the principles laid down in the judgment in **THYSSEN STAHLUNION GMBH's** case, wherein head note (B) is extracted and so also relied upon other judgment of the Apex Court in **RAJAN KUMAR VERMA's** case reported in **AIR 2006 PATNA 1** and extracted Para Nos.14 to 17 of the judgment in Para No.10. The learned District Judge comes to the conclusion that the facts of the above decisions are similar and also referred the decision of the Apex Court in

THYSSEN STAHLUNION GMBH's case and **RAJAN KUMAR VERMA's** case.

15. Having considered the principles laid down in the said judgments referred (supra), the learned District Judge comes to the conclusion that the dispute between the parties for arbitration to the Arbitrator is as per the provisions contained in Arbitration Act, 1940 and comes to the conclusion that the said arbitration clause cannot be enforced as the said Hire Purchase Agreement refers the dispute for arbitration under the provisions of the repealed Act. Therefore, the arbitration Clause contained in Ex.P1 at Clause No.VII (a) is not valid and the Arbitrator has no jurisdiction to decide the dispute involved between the parties, as the arbitration agreement as contained in Clause No.VII (a) of the Hire Purchase Agreement at Ex.P1 is not a valid agreement between the parties.

16. It is also important to note that learned counsel for the appellant relied upon the judgment of the Apex Court in **PURUSHOTTAM, S/O. TULSIRAM BADWAIK VS. ANIL AND OTHERS** reported in **(2018) 8 SCC 95**. In this judgment, the

Apex Court has considered the earlier judgments which have been referred by the learned District Judge and the Apex Court has clarified the same, particularly the judgment in **MMTC LTD. VS. STERLITE INDUSTRIES (INDIA) LTD.** reported in **(1996) 6 SCC 716** and though the said judgment was not referred by the learned District Judge, in the said judgment, it is clarified that in terms of Section 85(2)(a) of 1996 Act, even when the proceedings had commenced under the 1940 Act, the parties could still agree on the applicability of the 1996 Act. If the arbitral proceedings had not commenced as on the day when the 1996 Act came into force, any subsequent commencement of arbitral proceedings had to be in terms of the 1996 Act.

17. Having considered the said principle, it is very clear that, even when the proceedings had commenced under 1940 Act, the subsequent commencement of arbitral proceedings had to be in terms of the 1996 Act. Hence, it is clear that, if any proceedings had to be initiated, the same shall be in terms of the 1996 Act. It is also important to note that the learned District Judge referred the judgment in **THYSSEN STAHLUNION**

GMBH's case and the said judgment is also discussed in **PURUSHOTTAM's** case and clarified that what is material for the purposes of the applicability of the 1996 Act is the agreement between the parties to refer the disputes to arbitration. If there be such an arbitration agreement which satisfies the requirements of Section 7 of the 1996 Act, and if no arbitral proceeding had commenced before the 1996 Act came into force, the matter would be completely governed by the provisions of the 1996 Act. Any reference to the 1940 Act in the arbitration agreement would be of no consequence and the matter would be referred to arbitration only in terms of the 1996 Act consistent with the basic intent of the parties and discernible from the arbitration agreement to refer the disputes to arbitration.

18. Having perused the principles laid down in the judgment in **PURUSHOTTAM's** case referred (supra), the Apex Court considered the similar issue involved between the parties in the case on hand and held that Sub-section (1) of Section 85 repealed three enactments including the 1940 Act. Sub-section

(2) stipulates, inter alia, that notwithstanding such repeal, the repealed enactment, namely, the 1940 Act would continue to apply in relation to arbitral proceedings which had commenced before the 1996 Act came into force unless the parties were to agree otherwise. The second limb of first clause of said subsection (2) further stipulates that notwithstanding such repeal the provisions of the 1996 Act would apply in relation to arbitral proceedings which commenced on or after the 1996 Act came into force. It is also held that the reference to "Indian Arbitration Act" or "to arbitration under the 1940 Act" in such cases would be of no consequence and the matter would still be governed under the 1996 Act. Would it then make any difference if in an agreement entered into after the 1996 Act came into force, the reference made by the parties in the agreement was to arbitration in terms of the 1940 Act. Having considered the principles laid down in the judgment and discussion made by the Apex Court considering Section 85 and also Sections 7 and 8 of the Arbitration Act, categorically held that arbitration agreement incorrectly stipulating arbitration under the 1940 Act i.e., even after the 1996 Act had come into effect, not to render the entire

agreement invalid and further held that, even if an arbitration agreement entered into after the 1996 Act had come into force were to make a reference to the applicable provisions of those under Indian Arbitration Act or the 1940 Act, such stipulation would be of no consequence and the matter must be governed under provisions of the 1996 Act. It is further held that an incorrect reference or recital regarding applicability of the 1940 Act would not render the entire arbitration agreement invalid and such stipulation will have to be read in the light of Section 85 of the 1996 Act and principles governing such relationship have to be under and in tune with the 1996 Act.

19. Having considered the principles laid down in the judgment in **PURUSHOTTAM's** case, this judgment is aptly applicable to the facts of the case on hand and though the learned District Judge referred the judgment in **THYSSEN STAHLUNION GMBH's** case referred supra, the same is clarified in this judgment. Hence, the very approach of the learned District Judge is erroneous and committed an error in dismissing the claim of the appellant herein and erroneously

answered issue No.4, in coming to the conclusion that the very agreement is not valid, though framed the issue whether the award in question is liable to be interfered with by this Court.

20. Having perused the reasoning given by the learned District Judge, while answering issue No.4, the learned District Judge held that the Hire Purchase Agreement at Ex.P1 is not a valid agreement between the parties. Therefore, the reference made by the first defendant to second defendant is not valid reference and set aside the award and not considered the matter on merits as to whether the Arbitrator has committed an error considering the scope of Section 34 of the Arbitration and Conciliation Act, 1996. When issue No.4 has not been considered and answered by the learned District Judge, this Court is of the view that the learned District Judge has committed an error in allowing the arbitration suit and setting aside the arbitration award only on the ground of no jurisdiction and arbitration reference is not correct and the matter requires to be remanded to the District Court to consider issue No.4 afresh on merits. Hence, I answer point No.(1) as 'affirmative'.

Point No.(2)

21. In view of the discussion made above, I pass the following:

ORDER

- (i) The appeal is allowed.
- (ii) The impugned judgment and decree passed by the learned District Judge at Udupi in Arbitration Suit No.18 of 2006 dated 12.08.2014, is hereby set aside and the matter is remanded to the District Court to consider the same on merits, particularly with reference to issue No.4.
- (iii) The parties are directed to appear before the District Court on **29.02.2024** without expecting any notice and this order itself shall be treated as notice to the parties.
- (iv) The District Court is directed to dispose of the matter within a period of three months from **29.02.2024**, since the arbitration reference is of the year 1999 and presently, we are in 2024.

- (v) The Registry is directed to communicate this order and send the records to the District Court, forthwith, to enable the District Court to take up the matter on **29.02.2024.**

**Sd/-
JUDGE**

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