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LATEST CASE LAW

South Eastern Railway v. Sara International Pvt. Ltd 2026: DHC: 5276

The Delhi High Court upheld an arbitral award directing South Eastern Railway to pay over ₹130 crore in damages to Sara International Pvt. Ltd., arising out of a dispute under the Wagon Investment Scheme. The Court held that its jurisdiction under Section 34 of the Arbitration and Conciliation Act, 1996 is limited and does not permit reappreciation of evidence or reassessment of the arbitral tribunal's findings. It found that the tribunal had independently evaluated the expert evidence, correctly interpreted the contractual terms, and awarded damages on a plausible basis. As the Railways failed to establish any patent illegality or ground warranting interference, the Court dismissed the challenge and upheld the arbitral award in its entirety.

EDITOR'S COLUMN

Manash Kamal Bezboruah v. Bokahola Tea Company Private Limited, 2026 SCC OnLine SC 1330

The Supreme Court held that the High Court cannot ordinarily exercise its supervisory jurisdiction under Article 227 to interfere with an arbitral tribunal's order rejecting jurisdictional objections under Section 16 of the Arbitration and Conciliation Act, 1996. The Court reiterated that the Act is a self-contained code aimed at minimising judicial intervention and ensuring speedy dispute resolution. It clarified that an order rejecting a Section 16 objection is challengeable only under Section 34 after the final arbitral award. Accordingly, the High Court's orders were set aside and the arbitration was directed to proceed.

BITES

State of Haryana v. Jai Durgaa Finvest (P) Ltd., 2026 SCC OnLine SC 1323

The Supreme Court held that courts cannot rewrite clear commercial contract terms on equitable grounds and upheld the validity of a contractual clause stating that a contractor's security deposit would not carry interest. The Court observed that parties who voluntarily accept contractual terms cannot later challenge them merely because they become burdensome. It further held that the clause was neither illegal nor opposed to public policy. However, the Court clarified that the State could not retain the security deposit indefinitely. Since the contract required its refund within three months of termination, the State was directed to pay 9% simple interest for the period of delay beyond that timeframe.

South Eastern Railway v. Sara International Pvt. Ltd 2026: DHC: 5276

BACKGROUND

- The Central Government introduced the Wagon Investment Scheme (WIS), 2005, to encourage private investment in railway freight infrastructure. Pursuant to the scheme, South Eastern Railway and Sara International Pvt. Ltd. executed a WIS Agreement on 26.12.2006 (later supplemented in 2013 and 2015). Sara International invested about ₹28.33 crore to purchase two rakes, while the Railways undertook to provide six guaranteed rakes every month for ten years along with a 10% freight rebate.
- In 2010, the Railways issued circulars restricting transportation of third-party goods and imposed additional conditions for registering indents. Sara International alleged that these circulars unilaterally altered the contract, prevented it from transporting third-party goods, and also denied use of agreed alternate loading stations, causing substantial financial losses.
- The dispute was referred to arbitration. The Arbitral Tribunal held that the Railways had breached the WIS Agreement and awarded ₹130,00,58,548, along with 8% pendente lite and future interest, besides arbitration costs.
- The Railways challenged the award under Section 34 of the Arbitration and Conciliation Act, 1996 before the Delhi High Court.

ISSUES

- The principal issue before the Delhi High Court was whether the arbitral award suffered from any infirmity warranting interference under Section 34 of the Arbitration and Conciliation Act, 1996.

DECISION

- The Delhi High Court dismissed the Section 34 petition and upheld the arbitral award. It held that Section 34 does not permit re-appreciation of evidence or appellate review. Interference is confined to cases of patent illegality or perversity.
- The Court found that the Tribunal had independently examined the expert report, reduced the claimant's damages after scrutiny, and recorded adequate reasons for accepting the evidence.
- The Court held that the Railways had been given sufficient opportunities to cross-examine witnesses and lead evidence but failed to avail them. Therefore, it could not later complain of denial of natural justice.
- The Tribunal's interpretation that the Railways could not unilaterally amend the WIS Agreement through circulars was held to be a plausible contractual interpretation, immune from interference under Section 34.
- Accordingly, the award directing South Eastern Railway to pay ₹130.00 crore with 8% interest and costs was sustained.

EDITOR’S COLUMN

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EDITOR'S COMMENTS

- This judgment reinforces the pro-arbitration approach consistently adopted by the Supreme Court by limiting judicial interference during ongoing arbitral proceedings. It clarifies that Article 227 cannot be used as an alternative appellate remedy against orders passed under Section 16, except in rare cases involving a patent lack of inherent jurisdiction. The decision also strengthens the principle of **kompetenz-kompetenz**, affirming that issues such as whether non-signatories are bound by an arbitration agreement must ordinarily be decided by the arbitral tribunal itself.

BACKGROUND

- The dispute arose out of long-standing disagreements concerning the affairs of a family-owned tea business comprising partnership firms and closely held companies, including Bokahola Tea Company Pvt. Ltd. and Kasojan Tea Company Pvt. Ltd..
- Earlier, the Supreme Court had referred the disputes between the parties to arbitration. During the arbitral proceedings, Respondent Nos. 1 to 3, who were non-signatories to the arbitration agreement, challenged the jurisdiction of the Arbitral Tribunal by filing an application under Section 16 of the Arbitration and Conciliation Act, 1996, contending that they could not be compelled to arbitrate.
- The Arbitral Tribunal rejected the jurisdictional objection and decided to proceed with the arbitration. Instead of awaiting the final award, the respondents approached the Gauhati High Court under Article 227 of the Constitution, challenging the Tribunal's order. The High Court entertained the petition, stayed the notices issued by the Tribunal to the respondents, and held that the revision petition was maintainable.
- Aggrieved by the High Court's interference at the interlocutory stage, the appellant approached the Supreme Court challenging both the interim stay order and the order holding the revision petition to be maintainable.

ISSUE

- Whether a challenge to the rejection of a Section 16 application by an Arbitral Tribunal can be entertained by the High Court under Article 227 of the Constitution before the arbitral proceedings conclude.
- Whether the High Court was justified in staying the arbitral proceedings despite the statutory framework under the Arbitration and Conciliation Act, 1996.

DECISION

- The Supreme Court held that the Gauhati High Court erred in exercising its supervisory jurisdiction under Article 227 of the Constitution to interfere with the arbitral proceedings at an interlocutory stage, as such interference was contrary to the scheme and object of the Arbitration and Conciliation Act, 1996.
- It reiterated that where an Arbitral Tribunal rejects a jurisdictional objection under Section 16, the aggrieved party must ordinarily wait until the final arbitral award is passed and thereafter avail the statutory remedy under Section 34 of the Arbitration and Conciliation Act, 1996.
- The Court observed that permitting challenges to every interlocutory order of the Arbitral Tribunal would frustrate the legislative intent of ensuring speedy resolution of disputes through arbitration and would result in unnecessary judicial intervention.
- It further clarified that the issue of whether the respondents, as non-signatories, could be subjected to arbitration was a matter to be determined by the Arbitral Tribunal on the basis of the evidence and applicable legal principles, without interference from the High Court at the preliminary stage.
- Accordingly, the Supreme Court set aside the orders of the Gauhati High Court, dismissed the revision proceedings, vacated the interim stay on the arbitral proceedings, and directed the Arbitral Tribunal to proceed with and conclude the arbitration expeditiously, without being influenced by any observations made in the impugned orders.

State of Haryana v. Jai Durgaa Finvest (P) Ltd., 2026 SCC OnLine SC 1323

CASE SUMMARY

- The Supreme Court held that courts cannot rewrite or modify clear commercial contract terms on equitable considerations and upheld the validity of Clause 19 of a government mining contract, which expressly stated that the contractor's security deposit would not carry any interest. The Court observed that parties who voluntarily enter into a contract with full knowledge of its terms cannot subsequently avoid those obligations merely because the bargain later appears onerous. As there was no allegation of fraud, coercion, or undue influence, the clause was held to be valid and enforceable.
- The Court rejected the contention that the no-interest clause was contrary to public policy, clarifying that it operated independently of the clause imposing 24% interest on delayed payment of instalments. While the latter compensated the State for the contractor's breach, the former merely governed the treatment of the security deposit. Equating the two, the Court held, would amount to impermissibly rewriting the contract, which courts are not empowered to do.
- However, the Supreme Court clarified that the no-interest clause did not authorize the State to retain the security deposit indefinitely. Since Clause 19 also required the deposit to be refunded within three months of the contract's expiry or termination, any retention beyond that period attracted liability to pay simple interest at 9% per annum. Accordingly, the Court upheld the clause's validity but directed the State to pay interest from 9 June 2000 until the date of adjustment or refund due to the delay in returning the security deposit.

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