

SINGER INDIA LTD. A  
v.  
CHANDER MOHAN CHADHA AND ORS.

AUGUST 13, 2004

[R.C. LAHOTI, CJ., G.P. MATHUR AND C.K. THAKKER, JJ.] B

*Rent Control and Eviction:*

*Delhi Rent Control Act, 1958:*

*Section 14(1)(b)—Subletting, assignment or parting with possession—Without written consent from landlord—Suit premises let out to an American company—RBI directed reduction of equity capital of the said American company in order to comply with S. 29 FERA, 1973—Therefore, pursuant to an amalgamation scheme approved by High Court the said American company merged into an Indian company which came in possession of the suit premises— Landlord filed eviction petition on the ground of subletting—High Court allowed the petition—Correctness of—Held: S 14(1)(b) is attracted upon occurrence of a factual situation of subletting, assignment or otherwise parting with possession, whether by a voluntary act or otherwise—The reasons for doing so are wholly irrelevant—Hence, such amalgamation attracted S.14(1)(b)—Plea to lift the corporate veil to see that the directors and shareholders of the transferee-company were the same as those of the transferor-company and, therefore, there was no subletting, rejected—Companies Act; 1956, Ss. 391 and 394.* C  
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*Constitution of India, 1950:* F

*Article 136—Special Leave Petition—High Court, in second appeal, affirmed the order of Rent Control Tribunal—A party, which did not file such a second appeal, filed SLP against High Court's order—Maintainability of—Held: Not maintainable.* G

**The predecessor-in-interest of the respondents let out the suit premises to an American company under a registered lease deed. The said landlord filed an eviction petition under Section 14(1)(b) of the Delhi Rent Control Act, 1958 on the ground that the American** H

**A** company, without obtaining any written consent from the landlord, had parted with the possession of the suit premises in favour of the appellant-Indian company.

**B** The appellant contested the eviction petition on the ground that a direction was issued to the American company to reduce its share capital to 40% in order to carry on business in India in view of Section 29 of the Foreign Exchange Regulation Act, 1973. Accordingly, a Company Petition was filed by the appellant-Indian company before the High Court under Sections 391 and 394 of the Companies Act, 1956, which was allowed and a scheme of amalgamation was sanctioned whereby the undertaking in India of the American company was amalgamated with the appellant-Indian company. It was also contended that the appellant-Indian company was no other entity except the legal substitute of the American company and in substance there was no case of sub-tenancy.

**D** The Rent Control Tribunal allowed the eviction petition. The High Court dismissed the second appeal filed by the appellant. The American company, which did not file the second appeal, and the appellant-Indian company have filed the present appeals.

**E** On behalf of the appellant, it was contended that the present transfer was not a voluntary transfer of undertaking but had to be resorted to under compulsion of law with a view to securing compliance of the provisions of FERA and the directions issued by the RBI and, therefore, Section 14(1)(b) of the Act would not be attracted; that in the peculiar facts of the present case, Section 14(1)(b) of the Act should not be literally construed but a purposive construction should be given; that on amalgamation the transferor-company merged into the transferee-company shedding its corporate shell, but for all practical purposes remaining alive and thriving as a part of the larger whole; and that the corporate veil should be lifted to see who were the directors and shareholders of the Indian company and who were in control of the affairs of the said company and if it was done it would be evident that there had been no subletting or parting with possession by the American company.

On behalf of the respondents, it was contended that the RBI direction to reduce the equity capital of the American company to 40% could be achieved by various modes permissible in law; that no direction had been issued by RBI to the American company for getting itself amalgamated with an Indian company; that the American company voluntarily submitted to a scheme of amalgamation with the Indian company; that after the sanction of the scheme by the High Court, the American company completely lost its identity and it was the Indian company which came into possession of the suit premises and, therefore, Section 14(1)(b) of the Act was clearly attracted.

Dismissing the appeal, the Court

**HELD:** 1. There is no ambiguity in Section 14(1)(b) of the Delhi Rent Control Act, 1958. The applicability of Section 14(1)(b) depends upon occurrence of a factual situation, namely, subletting or assignment or otherwise parting with possession of the whole or any part of the premises by the tenant. Whether it is a voluntary act of the tenant or otherwise and also the reasons for doing so are wholly irrelevant and can have no bearing. [544-B-D]

*M/s. Parasram Harnand Rao v. Shanti Prasad Narinder Kumar Jain*, AIR (1980) SC 1655, relied on.

2. In an amalgamation, two or more companies are fused into one by merger or by one taking over the other. Reconstruction or amalgamation has no precise legal meaning. The original lessee, namely, the American company ceased to exist and thereafter the Indian company came in possession and is in occupation of the premises in dispute. [545-H; 546-A-F]

*Saraswati Industrial Undertaking v. CIT*, AIR 1991 SC 70, relied on.

*Halsbury's Laws of England* 4th Edn., para 1539, referred to.

3. Even if there is an order of a Court sanctioning the scheme of amalgamation under Sections 391 and 394 of the Companies Act, 1956 whereunder the leases and rights of tenancy or occupancy of the transferor-company get vested in and become the property of the

**A transferee-company, it would make no difference in so far as the applicability of Section 14(1)(b) of the Act is concerned, as the Act does not make any exception in favour of a lessee who may have adopted such a course of action in order to secure compliance with law.**

[548-G-H; 549-A]

**B** *M/s. General Radio and Appliances Co. Ltd. v. M.A. Khader*, [1986] 2 SCC 656 and *Cox & Kings Ltd. v. Chander Malhotra*, [1997] 2 SCC 687, relied on.

**C** *M/s. Parasram Harnand Rao v. Shanti Prasad Narinder Kumar Jain*, AIR (1980) SC 1655 and *Madras Bangalore Transport Co. (West) v. Inder Singh*, [1986] 3 SCC 62, referred to.

*Hindustan Petroleum Corporation Ltd. v. Shyam Co-operative Housing Society*, [1988] 4 SCC 747, held inapplicable.

**D** 4. It is not open to the company to ask for unveiling its own cloak and examine as to who are the directors and shareholders and who are in reality controlling the affairs of the company. This was not the case of the appellant nor could it possibly be that the corporate character is employed for the purpose of committing an illegality or defrauding others. It is not open to the appellant to contend that for the purpose of FERA, the American company has effaced itself and has ceased to exist but for the purpose of the Delhi Rent Control Act, it is still in existence. Therefore, it is not possible to hold that it is the American company, which is still in existence and is in possession of the premises in question. On the contrary, the inescapable conclusion is that it was the Indian company, which was in occupation and was carrying on business in the premises in question rendering the appellant liable for eviction. [552-A-D]

**G** *Tata Engineering and Locomotive Co. Ltd. v. State of Bihar*, AIR (1965) SC 40 and *DDA v. Skipper Construction Co. (P) Ltd.*, AIR (1996) SC 2005, relied on.

**H** *G.K. Bhatnagar v. Abdul Alim*, [2002] 9 SCC 516; *Parvinder Singh v. Renu Gautam*, [2004] 4 SCC 794; *In Re: Telesound India Ltd.* (1983) 53 Company Cases 926 (Del.), *Vishwa Nath v. Chaman Lal Khanna*, AIR

(1975) Del. 117 and *Salomon v. Salomon & Co. Ltd.*, (1897) AC 22, A referred to.

*Palmer's Company Law*, 24th Edn. Chapter 18, para 2 and *Gower: Principle of Modern Company Law*, 4 Edn., Chapter 6 and *Pennington: Company Law*, 5th Edn., 1985, p. 53, referred to.

5. The American company did not challenge the order of the Rent Control Tribunal by filing a second appeal in the High Court. Even otherwise, the grounds for challenge are the same. Therefore, its appeal is also dismissed. [552-D-E]

CIVIL APPELLATE JURISDICTION : Civil Appeal No. 387 of 2004.

From the Judgment and Order dated 25.5.2001 of the Delhi High Court in S.A.O. No. 17 of 1996.

WITH

C.A. No. 388 of 2004.

Anil B. Divan, in C.a. No. 387/2004, Ashok Grover, in C.A. No. 388/2004, Ashok Kumar Chhabra, Dinesh Kumar Masant, R. Chandrachud, Ms. Anupama Grover and Ms Madhu Moolchandani for the Appellants. E

Dushyant Dave in C.A. No. 387/2004, K. Ramamoorthy in C.A. No. 388/2004, Rohit Alex, Sri Ram J. Thalapathy, L.K. Garg, Ms. S. Nagarajan, G.D. Gupta for P.H. Parekh and Ms. Minakshi Vij for the Respondents. F

The Judgment of the Court was delivered by

G.P. MATHUR, J. : 1. This appeal, by Special Leave, has been preferred against the judgment and order dated 25.5.2001 of Delhi High Court whereby the Second Appeal preferred by the appellant was dismissed and the judgment and order dated 8.4.1996 of the Rent Control Tribunal directing eviction of the appellant from the premises in dispute was affirmed. G

2. Shri Atma Ram Chadha, predecessor-in-interest of respondent Nos. 1 to 13 (hereinafter referred to as the 'landlord') let out Shop No. 13/14 H

A (Private No. 15) Block 'C', Cannaught Place, New Delhi to M/s. Singer Sewing Machine Company, incorporated under the laws of the State of New Jersey, USA, (hereinafter referred to as 'American Company'), at a rental of Rs. 1200/- per month vide a registered lease deed dated 11.7.1966. In the year 1982, the landlord filed an eviction petition on the ground, *inter alia*, that the American Company, without obtaining any written consent from the landlord, had parted with the possession of the premises in dispute in favour of Indian Sewing Machine Company Limited, incorporated under the Indian Companies Act (hereinafter referred to as 'Indian Company'), and it was the said company which was in exclusive possession of the premises and thereby it was liable for eviction in view of Section 14(1)(b) of the Delhi Rent Control Act (hereinafter referred to as the 'Act').

C The eviction petition was contested by the appellant on the ground, *inter alia*, that a direction was issued to the American Company to reduce its share capital to 40 per cent in order to carry on business in India in view of Section 29 of Foreign Exchange Regulation Act, 1973 (hereinafter referred to as 'FERA').

D Accordingly, Company Petition bearing No. 66 of 1981 was filed by the Indian Company before the Bombay High Court under Sections 391 and 394 of the Companies Act which was allowed on 31.12.1981, and a scheme of amalgamation was sanctioned whereby the undertaking in India of the American Company was amalgamated with the Indian Company.

E Under the scheme of amalgamation the whole of the business, property, undertaking, assets, including leases, rights of tenancy, occupancy etc. stood transferred to and vested in the Indian Sewing Machine Company, namely, the Indian Company. It was submitted that the Indian Company is no other entity except the legal substitute of the American Company and in substance there is no case of sub-tenancy.

F The Additional Rent Controller, Delhi dismissed the eviction petition by the judgment and order dated 6.2.1995, but this was reversed by the Rent Control Tribunal in the appeal preferred by the landlord and eviction petition was allowed. The Second Appeal preferred by the appellant was dismissed by the High Court on 25.5.2001.

G During the pendency of the appeal before the Rent Control Tribunal, the name of M/s. Indian Sewing Machine Company was changed as Singer India Limited which is the appellant herein.

3. Shri Anil Divan, learned senior counsel for the appellant, has submitted that at the relevant time Section 29 of FERA provided that a

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company (other than a banking company) which is not incorporated under any law in force in India or any branch of such company, shall not, except with a general or special permission of the Reserve Bank, carry on in India or establish in India a branch, office or other place of business for carrying on any activity of a trading, commercial or industrial nature, other than an activity for the carrying on of which permission of the Reserve Bank had been obtained under Section 28. Accordingly, a direction was issued by the Reserve Bank to the American Company to reduce its equity capital to 40 per cent. In view of this direction, a Company Petition was filed under Sections 391 and 394 of the Companies Act in the Bombay High Court for sanctioning a scheme of amalgamation which was allowed and the American Company got amalgamated with the Indian Company. Learned counsel has submitted that it was not a voluntary transfer of undertaking, but the amalgamation of the original lessee, namely, the American Company with the Indian Company had to be resorted to under compulsion of law with a view to secure compliance of the provisions of FERA and the directions issued by the Reserve Bank of India and, therefore, Section 14(1)(b) of the Act would not be attracted. Learned counsel has further submitted that in the peculiar facts of the present case, Section 14(1)(b) of the Delhi Rent Control Act should not be literally construed but a purposive construction should be given. Reference in this connection has been made to a decision of Delhi High Court in *Telesound India Ltd. In re.* 1983 (53) Company Cases 926 wherein it has been held that the effect of an order of amalgamation passed under Section 394 of the Companies Act is that the rights, properties and the liabilities of the transferor company become the rights, property and liabilities of the transferee-company and it is neither an assignment of right or property nor an assignment of the property by the company. On amalgamation, the transferor-company merges into the transferee-company shedding its corporate shell, but for all practical purposes remaining alive and thriving as part of the larger whole. The transferor-company is dissolved not because it has died or ceased to exist, but because for all practical purposes it has merged into another corporate shell. Learned counsel has thus submitted that what should be looked into is the substance of the matter and in view of the aforesaid legal position, only the corporate shell of the American Company has been shed or removed, but it is still alive and thriving as part of the Indian Company and consequently there was no sub-letting or parting with possession so as to attract the provision of Section

- A 14(1)(b) of the Act. Shri Divan has also referred to *G.K. Bhatnagar v. Abdul Alim*, [2002] 9 SCC 516 and *Parvinder Singh v. Renu Gautam and Others*, [2004] 4 SCC 794 wherein with reference to creation of partnership by a tenant it was held that if the user and control of the tenancy premises has been parted with and a deed of partnership has been drawn up as an indirect method of collecting the consideration for creation of sub-tenancy or for providing a cloak or cover to conceal a transaction not permitted by law, the court is not estopped from tearing the veil of partnership and finding out the real nature of transaction entered into between the tenant and the alleged sub-tenant. Reference has also been made to a decision of a Single Judge of Delhi High Court in *Vishwa Nath v. Chaman Lal Khanna*, AIR (1975) Delhi 117 wherein it was held that if an individual takes a premises on rent and then converts his sole proprietorship concern into a private limited company in which he has the controlling interest, it would not amount to parting with possession with any one as he continues to be in possession of the premises and as such he does not become liable for eviction under Section 14(1)(b) of the Act. Learned counsel has further submitted that as the Company Petition for sanctioning the scheme of amalgamation was filed in order to secure compliance with law, namely, to reduce the equity capital of the American Company to 40 per cent and as the "lease, rights of tenancy or occupancy" of the said company got vested with the Indian Company in view of the sanction granted by the Bombay High Court i.e. under the orders of the Court, the principle laid down by this Court in *Hindustan Petroleum Corporation Ltd. and Another v. Shyam Co-operative Housing Society and Others*, 1988 (4) SCC 747 will be applicable and no order of eviction can be passed against the appellant.

4. Shri Dushyant Dave, learned senior counsel for the respondent, has submitted that the argument that it was not the voluntary act of the American Company whereunder its leasehold rights, rights of tenancy or occupancy got transferred to or vested in the Indian Company is wholly fallacious. The direction issued by the Reserve Bank of India for ensuring compliance of Section 29 of FERA was merely to reduce the equity capital of the American Company to 40 per cent and this could be achieved by various modes permissible in law. No such direction had been issued by the Reserve Bank to the American Company for getting itself amalgamated with an Indian Company. The American Company voluntarily submitted

to a scheme of amalgamation with the Indian Company in the Company Petition before the Bombay High Court whereunder its 'lease, right of tenancy or occupancy' got vested with the Indian Company. After the sanction of scheme of amalgamation, the American Company completely lost its identity and it was the Indian Company which came into possession of the premises in dispute and, therefore, the provisions of Section 14(1)(b) of the Delhi Rent Control Act were clearly attracted and the order for eviction had rightly been passed. Learned counsel has also submitted that it is a well-settled principle of interpretation that the words of a statute must be interpreted in their ordinary grammatical sense unless there be something in the context or in the object of the statute in which they occur or in the circumstances in which they are used to show that they were used in a special sense different from their ordinary grammatical sense, and the golden rule is that the words of a statute must, *prima facie* be given their ordinary meaning. On a plain reading of the provision, it is urged, sub-letting, assigning or otherwise parting with possession of the whole or any part of the premises without obtaining the consent in writing from the landlord would render the tenant liable for eviction. It has thus been urged that in view of the fact that the American Company transferred the lease and occupancy rights to the Indian Company, the order for eviction passed against the appellant was perfectly justified. Shri Dave has also submitted that the controversy raised in the present appeal has already been considered in several decisions by this Court and there is absolutely no reason to depart from the view taken therein.

5. Before adverting to the contentions raised at the Bar, it will be convenient to reproduce Section 14(1)(b) of the Act, which reads as under:

“14. *Protection of tenant against eviction.*— (1) Notwithstanding anything to the contrary contained in any other law or contract, no order or decree for the recovery of possession of any premises shall be made by any court or Controller in favour of the landlord against a tenant:

Provided that the Controller may, on an application made to him in the prescribed manner, make an order for the recovery of possession of the premises on one or more of the following grounds only, namely —

A (a) .....

(b) that the tenant has, on or after the 9th day of June, 1952 sub-let, assigned or otherwise parted with the possession of the whole or any part of the premises without obtaining the consent in writing of the landlord..”

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There is no ambiguity in the Section and it clearly says that if, without obtaining the consent in writing of the landlord the tenant has, on or after 9.6.1952, (i) sub-let, or (ii) assigned, or (iii) otherwise parted with the possession of the whole or any part of the premises, he would be liable for eviction. The applicability of the Section depends upon occurrence of a factual situation, namely, sub-letting or assignment or otherwise parting with possession of the whole or any part of the premises by the tenant. Whether it is a voluntary act of the tenant or otherwise and also the reasons for doing so are wholly irrelevant and can have no bearing. This view finds

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support from an earlier decision rendered in *M/s. Parasram Harnand Rao v. M/s. Shanti Prasad Narinder Kumar Jain and Another*, AIR (1980) SC 1655 wherein Section 14(1)(b) of Delhi Rent Control Act came up for consideration. The tenant in the premises, was Laxmi Bank, which was ordered to be wound up and in that winding up proceeding, the Court appointed an Official Liquidator who sold the tenancy rights in favour of S.N. Jain on 16.2.1961. The sale was confirmed by the High Court and, as a result thereof, S.N. Jain took possession of the premises. Thereafter, the landlord filed a petition for eviction of Laxmi Bank. The High Court held that as the transfer in favour of S.N. Jain by the Official Liquidator

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was confirmed by the Court, he acquired the status of the tenant by operation of law and, therefore, the transfer of the tenancy rights was an involuntary transfer and the provision of Section 14(1)(b) of the Act would not be attracted. Reversing the judgment, this Court held that the Official Liquidator had merely stepped into the shoes of Laxmi Bank which was the original tenant and even if the Official Liquidator had transferred the tenancy interest to S.N. Jain under the orders of the Court, it was on behalf of the original tenant. It was further held that the sale was a voluntary sale, which clearly was with the mischief of the Section, and assuming that the sale by the Official Liquidator was an involuntary sale, it undoubtedly

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became an assignment as provided by Section 14(1)(b) of the Act. The

Court further held that the language of Section 14(1)(b) is wide enough not only to include any sub-lease but even an assignment or any other mode by which possession of the tenanted premises is parted and the provision does not exclude even an involuntary sale. A

6. It is also necessary to take note of some clauses of the scheme of amalgamation which was sanctioned by the Bombay High Court on 31.12.1981. In the scheme "Transferor Company" means the undertaking in India of Singer Sewing Machine Company, a company incorporated under the laws of the State of New Jersey, USA, the "Transferee Company" means Indian Sewing Machine Company Limited, a company incorporated under the Companies Act, 1956 and having its registered office at 207, Dadabhoy Naoroji Road, Bombay, and the "Appointed Day" means 1.1.1982. The relevant part of clause (2) of the scheme, which has a bearing on the controversy, is being reproduced below: B C

2. "With effect from the Appointed Day, except as hereinafter stated, the whole of the business, property, undertaking, assets, including leases, rights of tenancy or occupancy, instalment receivables under hire purchase contracts, benefits of licences and quota rights of whatsoever description and wheresoever of the Transferor Company shall without further act or deed, be transferred to and vested in the Transferee Company so as to become from the appointed day, the business, property, undertaking assets, including leases, rights of tenancy or occupancy, instalment receivable under hire purchase contracts, benefits of licences and quota rights of the Transferee Company" for all the estate and interest of the transferor company therein, provided that 13,445 equity shares of....." D E F

The effect of this clause is that with effect from 1.1.1982 "leases, rights of tenancy or occupancy" of the Singer Sewing Machine Company (American Company) got vested with M/s. Indian Sewing Machine Company (Indian Company). G

7. The provision for facilitating reconstruction and amalgamation of companies is made under Section 394 of the Companies Act. In an amalgamation, two or more companies are fused into one by merger or by one taking over the other. Reconstruction or amalgamation has no precise H

A legal meaning. In Halsbury's Laws of England (4th Edn.) para 1539, the attributes of amalgamation of companies have been stated as under:

B "Amalgamation is a blending of two or more existing undertakings into one undertaking, the shareholders of each blending company becoming substantially the shareholders in the company which is to carry on the blended undertakings. There may be amalgamation either by the transfer of two or more undertakings to a new company, or by the transfer of one or more undertakings to an existing company. Strictly "amalgamation" does not, it seems, cover the mere acquisition by a company of the share capital of other companies which remain in existence and continue their undertakings, but the context to which the term is used may show that it is intended to include such an acquisition.

D The question whether a winding up is for the purposes of reconstruction or amalgamation depends upon the whole of the circumstances of the winding up."

8. In *Saraswati Industrial Undertaking v. CIT Haryana*, AIR (1991) SC 70 (para 6), it has been held that there can be no doubt that when two companies amalgamate and merge into one, the Transferor Company loses its identity as it ceases to have its business. However, their respective rights or liabilities are determined under the scheme of amalgamation, but the corporate identity of the Transferor Company ceases to exist with effect from the date the amalgamation is made effective. Therefore, in view of the settled legal position, the original lessee, namely, the American Company ceased to exist with effect from the Appointed Day i.e. 1.1.1982 and thereafter the Indian Company came in possession and is in occupation of the premises in dispute.

9. The effect of parting of possession of the tenanted premises as a result of sanction of scheme of amalgamation of companies under Section 394 of the Companies Act by the High Court has also been considered in two decisions of this Court. In *M/s. General Radio and Appliances Co. Ltd and Others v. M.A. Khader*, [1986] 2 SCC 656, which is a decision by a bench of three learned Judges, the premises had been let out to M/s. General Radio and Appliances Co. Ltd. On account of a scheme of amalgamation sanctioned by the High Court under Sections 391 and 394

of the Companies Act, all property, rights and powers of every description including tenancy right, held by M/s. General Radio and Appliances Co. Ltd. had been blended with M/s. National Ekco Radio & Engineering Co. Ltd. Thereafter the landlord instituted proceedings for eviction on the ground of unauthorized sub-letting. It was urged on behalf of the original tenant that the amalgamation of M/s. General Radio and Appliances Co. Ltd (appellant No. 1) with M/s. National Ekco Radio & Engineering Co. Ltd. (appellant No. 2) was an involuntary one which had been brought into being on the basis of the order passed by the High Court under Sections 391 and 394 of the Companies Act and that the appellant No. 1 Company had not been wound up and /or liquidated, but had been merely blended with appellant No. 2 on the basis of the order of the Court and consequently there was no sub-letting by appellant No. 1 Company to appellant No. 2 Company. It was also urged that appellant No. 1 Company had not become extinct but had been merged and/or blended with appellant No. 2 Company. It was held that the order of amalgamation was made by the High Court on the basis of the petition filed by the Transferor Company in the Company Petition and, therefore, it cannot be said that this is an involuntary transfer effected by the order of the Court. It was further held that appellant No. 1 Company was no longer in existence in the eyes of law and it had effaced itself for all practical purposes. The appellant No. 2 Company i.e., the Transferee Company, was not a tenant in respect of the suit premises and it was appellant No. 1 Company which had transferred possession of the suit premises in favour of the appellant No. 2 Company. The Court further took the view that under the relevant Act, there was no express provision that in case of any involuntary transfer or transfer of the tenancy right by virtue of a scheme of amalgamation sanctioned by the High Court by its order under Sections 391 and 394 of the Companies Act, such a transfer will not come within the purview of Section 10(ii)(a) of Andhra Pradesh Building (Lease, Rent and Eviction) Control Act. On this finding, it was held that the appellant was liable for eviction.

10. *Cox & Kings Ltd. and Another v. Chander Malhotra*, [1997] 2 SCC 687 is also a decision by a bench of three learned Judges and arose out of proceedings for eviction under Section 14(1)(b) of Delhi Rent Control Act. Here, the premises were given on lease to Cox & Kings (AGENTS) Limited, a company incorporated under the United Kingdom

A Companies Act (for short, "Foreign Company"). A petition for eviction was filed on several grounds and one of the grounds was of sub-letting to Cox & Kings Limited, a company registered under the Indian Companies Act (for short an "Indian Company"). It was contended on behalf of the appellant that in view of Section 29 of FERA, the Foreign Company was required to obtain written permission from the Reserve Bank of India to carry on business. The said permission was sought for but was refused. As a consequence, the Indian Company, namely, Cox & Kings Limited was floated in which the Foreign Company sought to have 100 per cent shares, but on refusal of permission had only 40 per cent of shares in the business to which approval was given by the Reserve Bank of India. Thereafter, the Indian Company carried on business in the same premises. It was urged that as the transfer of leasehold interest from the Foreign Company to the Indian Company was by compulsion, it was an involuntary one and, therefore, it was not a case of sub-letting within the meaning of Section 14(1)(b) of the Act. It was held that under FERA, there was no compulsion that the premises demised to the Foreign Company should be continued or given to the Indian Company. On the other hand, under the agreement executed between the Foreign Company and the Indian Company, incidental to the assignment of the business as a growing concern, the Foreign Company also assigned the monthly and other tenancies and all rented premises of the assignor in India to the Indian Company. The Court, accordingly, concluded that though by operation of FERA the Foreign Company had wound up its business, but under the agreement it had assigned the leasehold interest in the demised premises to the Indian Company which was carrying on the same business in the tenanted premises without obtaining the written consent of the landlord and, therefore, it was a clear case of sub-letting. After referring to the earlier decisions in *M/s. Parasram Harnand Rao v. M/s. Shanti Prasad Narinder Kumar Jain* (supra) and *M/s. General Radio and Appliances Co. Ltd. v. M.A. Khader* (supra), the Court ruled that it was a case of assignment by the Foreign Company to the Indian Company which amounted to sub-letting within the meaning of Section 14(1)(b) of the Act and the decree for eviction was affirmed.

11. These cases clearly hold that even if there is an order of a Court sanctioning the scheme of amalgamation under Sections 391 and 394 of the Companies Act whereunder the leases, rights of tenancy or occupancy

of the Transferor Company get vested in and become the property of the Transferee Company, it would make no difference in so far as the applicability of Section 14(1)(b) is concerned, as the Act does not make any exception in favour of a lessee who may have adopted such a course of action in order to secure compliance of law. A

12. *Madras Bangalore Transport Co. (West) v. Inder Singh and Others*, [1986] 3 SCC 62 cited by Shri Divan, does not advance the case of the appellant either as, here, the Court on the basis of material on record found as a fact that the Limited Company was formed with the partners of the existing tenant firm as Directors and both the firm and the company were operating from the same place, each acting as agent of the other. It was also found as a fact that the company was only an 'alter ego' or a 'corporate reflection' of the tenant firm and the two were for all practical purposes having substantial identity and, consequently, there was no sub-letting, assignment or parting with possession of the premises by the firm to the company so as to attract Section 14(1)(b) of the Act. This case has been decided purely on facts peculiar to it and no principle of law has been laid down. The position in *Hindustan Petroleum Corporation Ltd. and Another v. Shyam Co-operative Housing Society and Others*, [1988] 4 SCC 747 cited by learned counsel for the appellant has hardly any application here. It is not a case of amalgamation of two companies but acquisition of undertaking of a Foreign Company by the Central Government. Section 5 of Esso (Acquisition of Undertakings in India) Act, 1974 provided that where any property is held in India by Esso under any lease or under any right of tenancy, the Central Government shall, on from the appointed day be deemed to have become the lessee or tenant, as the case may be, in respect of such property as if the lease or tenancy in relation to such property had been granted to the Central Government, and thereupon all the rights under such lease, or tenancy shall be deemed to have been transferred to and vested in the Central Government. In view of this statutory provision, the Central government, by operation of law, became the tenant of all such properties which were being held by Esso under any lease or any right of tenancy. There is no statutory enactment here which may give any kind of protection to the appellant. B C D E F G

13. Shri Divan has next contended that on amalgamation Singer Sewing Machine Company (American Company) merged into Indian H

- A Sewing Machine Company (Indian Company) shedding its corporate shell, but for all practical purposes remained alive and thriving as part of the larger whole. He has submitted that this Court should lift the corporate veil and see who are the directors and shareholders of the Transferee Company and who are in real control of the affairs of the said company and if it is done it will be evident there has been no sub-letting or parting with possession by the American Company.

- C 14. In Palmer's Company Law (24th Edn), in chapter 18, para 2 onwards some instances have been given in which the modern company law disregards the principle that the company is an independent legal entity and also when the Courts would be inclined to lift the corporate veil and the important ones being in relation to the law relating to trading with enemy where the test of control is adopted and also where the device of incorporation is used for some illegal or improper purpose. In Gower's Principle of Modern Company Law (4th Edn), in chapter 6, the topic of lifting the veil has been discussed. The learned author has said that there is no consistent principle beyond a refusal by the legislature and the judiciary to apply the logic of the principle laid down in *Solomon's case* where it is too flagrantly opposed to justice, convenience or the interest of the Revenue. In the cases where veil is lifted, the law either goes behind the corporate personality to the individual members, or ignores the separate personality of each company in favour of the economic entity or ignores the separate personality in favour of the economic entity constituted by a group of associated companies. The principal grounds where such a course of action can be adopted are to protect the interest of the Revenue and also where the corporate personality is being blatantly used as a cloak for fraud or improper conduct.

- G 15. The question of lifting the corporate veil was examined by a Constitution Bench in *Tata Engineering and Locomotive Co. Ltd etc. v. The State of Bihar and Others*, AIR (1965) SC 40. The Court observed that the doctrine of lifting of the veil postulates the existence of dualism between the corporation or company on the one hand and its members or shareholders on the other. After review of a number of authorities and standard books, the parameters where the said doctrine could be applied were indicated in consonance with the principles indicated in the preceding H paragraph. In *Delhi Development Authority v. Skipper Construction*

*Company (P) Ltd. and Another* AIR (1996) SC 2005, Mr. Justice B. P. Jeevan Reddy has examined the question in considerable detail and it will be useful to reproduce the relevant paragraph of the judgment which is as under:

Para 24. “ Lifting the corporate veil:

In *Aron Salomon v. Salomon & Company Limited*, (1897) Appeal Case 22, the House of Lords had observed, “the company is at law a different person altogether from the subscriber.; and though it may be that after incorporation the business is precisely the same as it was before and the same persons are managers and the same hands received the profits, the company is not in law agent of the subscribers or trustee for them. Nor are the subscribers as members liable, in any shape or form, except to the extent and in the manner provided by that Act”. Since then, however, the Courts have come to recognize several exceptions to the said rule. While it is not necessary to refer to all of them, the one relevant to us is “when the corporate personality is being blatantly used as a cloak for fraud or improper conduct” (Gower: *Modern Company Law* 4th Edn. (1979) at P. 137) Pennington (*Company Law* 5th Edn. 1985 at P.53) also states that “where the protection of public interests is of paramount importance or where the company has been formed to evade obligations imposed by the law”, the Court will disregard the corporate veil “

It was held that, broadly, where a fraud is intended to be prevented, or trading with enemy is sought to be defeated, the veil of corporation is lifted by judicial decisions and the shareholders are held to be ‘persons who actually work for the corporation’. The main principle on which such a course of action can be taken was stated in paragraph 28 of the report and the relevant part thereof is being reproduced below:

“28. The concept of corporate entity was evolved to encourage and promote trade and commerce but not to commit illegalities or to defraud people. Where, therefore, the corporate character is employed for the purpose of committing illegality or for defrauding others, the Court would ignore the corporate character

A and will look at the reality behind the corporate veil so as to enable it to pass appropriate orders to do justice between the parties concerned..”

B 16. However, it has nowhere been held that such a course of action is open to the company itself. It is not open to the Company to ask for unveiling its own cloak and examine as to who are the directors and shareholders and who are in reality controlling the affairs of the Company. This is not the case of the appellant nor could it possibly be that the corporate character is employed for the purpose of committing illegality or defrauding others. It is not open to the appellant to contend that for the purpose of FERA, the American Company has effaced itself and has ceased to exist but for the purpose of Delhi Rent Control Act, it is still in existence. Therefore, it is not possible to hold that it is the American Company which is still in existence and is in possession of the premises in question. On the contrary, the inescapable conclusion is that it is the C Indian Company which is in occupation and is carrying on business in the premises in question rendering the appellant liable for eviction. D

E 17. Civil Appeal No. 388 of 2004 has been filed by M/s. Singer Company of USA (American Company). The American Company did not challenge the order of the Rent Control Tribunal by filing a Second Appeal in the High Court. Even otherwise, the grounds for challenge are the same, which we have already discussed above.

F 18. For the reasons mentioned above, Civil Appeal No. 387 of 2004 and Civil Appeal No. 388 of 2004 are dismissed with costs.

19. The appellant in Civil Appeal No. 387 of 2004 is granted three months' time to vacate the premises subject to its filing usual undertaking before the Rent Controller.

V.S.S.

Appeals dismissed.