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IN THE HIGH COURT OF DELHI AT NEW DELHI
Reserved on: 10th September, 2020
Pronounced on: 2nd March, 2021

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CS(COMM) 98/2020 and I.A. 3381/2020

HERO ELECTRIC VEHICLES PRIVATE LIMITED & ANR.

..... Plaintiffs

Through: Mr. Sudhir Chandra, Sr. Adv. with Mr. Ankur Sangal, Mr. Sahil Narang, Ms. Pragya Mishra and Ms. Richa Bhargava, Advs.

versus

LECTRO E-MOBILITY PRIVATE LIMITED & ANR.

.... Defendants

Through: Mr. Akhil Sibal, Sr. Adv. with Mr. Vikas Mishra, Ms. Malini Sud, Mr. Nikhil Chawla, Ms. Shriya Mishra, Advs.

CORAM:

HON'BLE MR. JUSTICE C. HARI SHANKAR

J U D G M E N T

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(Video-Conferencing)

1. M/s Hero Electric Vehicles Pvt. Ltd. and M/s Hero Exports are the plaintiffs in CS (Comm) 98/2020, and M/s Lectro E-Mobility Pvt Ltd and Hero Cycles Ltd. are the defendants. The suit essentially seeks a decree of permanent injunction, restraining the defendants from dealing, in any manner, in electric bikes having a throttle, using "Hero" or any mark deceptively similar thereto, as a trademark, brand name or tradename, in any manner as would infringe the said mark, or result in

passing off, of the defendant's electric bikes having a throttle, as those of the plaintiffs.

2. The defendants (Lectro E-Mobility Pvt. Ltd., referred to, hereinafter, as "Lectro" and Hero Cycles Ltd) have filed IA 3381/2020 under Section 8 of the Arbitration and Conciliation Act, 1996 (hereinafter referred to as "the 1996 Act"), seeking reference of the disputes, forming subject matter of the suit, to arbitration.

3. This judgement disposes of IA 3381/2020 as well as CS (Comm) 98/2020, after having heard arguments at length led, on behalf of the plaintiffs, by Mr. Sudhir Chandra, learned Senior Counsel and, on behalf of the defendants, by Mr. Akhil Sibal, learned Senior Counsel. Written submissions have also been filed, more than once, by both sides.

The controversy in the suit

4. Plaintiff No. 2 Hero Exports claims to have started its business of electric vehicles, and to have launched battery fitted electric cycles and electric scooters, in 2007, under the well-known trademarks "Hero" and "Hero Electric". The marks "Hero" and "Hero Electric" were registered by the Registry of Trade Marks, in favour of Plaintiff No. 2, under Class 12 of the Schedule to the Trade Marks Rules, 2002, in 2008. The details of such registration have been tabulated, in the suit, thus:

S. No.	Trademark	Date of filing of application for registration	Goods in respect of which mark registered
1		10 th November, 2008	Environment friendly electric bikes and parts, fittings and accessories thereof
2		24 th November, 2008	Bikes, electric bikes, motor bikes and parts, fittings and accessories thereof, tires, tubes and flaps for all such goods included in Class XII
3		24 th November, 2008	Environment friendly electric bikes and parts, fittings and accessories thereof
4		24 th November, 2008	Environment friendly electric bikes and parts, fittings and accessories thereof

5. At the time of filing of the applications for the aforesaid registrations, Hero Exports was a partnership firm of all members of the Munjal Group. *Vide* a Family Settlement Agreement (referred to,

in the suit as well as hereinafter, as “FSA”) dated 20th May, 2010, however, the businesses of the group were divided among four Family Groups, designated as F-1, F-2, F-3 and F-4. The plaintiff asserts that, as per Schedule 7 to the FSA, Hero Exports, along with its business, was transferred to the F-1 group. The plaintiffs belong to the F-1 group, whereas the defendants belong to the F-4 group.

6. On 20th May, 2010 itself, parallely with the FSA, a “Trade Mark and Name Agreement” (referred to, in the suit as well as hereinafter, as “TMNA”), was executed, which assigned the right to use the trademark “Hero”, and its variants, among the Family Groups, in relation to the products and services to which the business of each group catered, to the exclusion of other groups. The plaintiff asserts that the TMNA conferred, on the F-1 group, the exclusive right to use the trademarks “Hero” and “Hero Electric”, and its variants, on all electric vehicles, including electric bikes.

7. On 31st July, 2010, the partners of Hero Exports incorporated Plaintiff No. 1 as a new company, initially named Hero Eco Vehicles Pvt. Ltd., and, later, Hero Electric Vehicles Pvt. Ltd., to conduct the business of electric vehicles. Thereafter, asserts the plaintiff, the business of electric vehicles was entirely conducted, by Hero Exports, through Plaintiff No. 1 Hero Electric Vehicles Private Limited (hereinafter referred to as “HEVPL”). It is further asserted that Hero Exports gave a license to HEVPL to use the trademarks of Hero Exports in respect of electric vehicles, and also to proceed against third parties who sought to infringe the said trademark.

8. Over a period of time, it is asserted, HEVPL has become the leading manufacturer of electric vehicles in India, and the products manufactured and sold by HEVPL under the trademarks of Hero Exports have garnered immense goodwill and reputation. Resultantly, it is averred, HEVPL has become the single source identifier of electric vehicles sold under the marks “Hero” and “Hero Electric”, and has exclusive statutory and common law rights over the “Hero” and “Hero Electric” trademarks in relation to electric vehicles, which include electric bikes.

9. The plaintiffs and the defendants have already suffered arbitral proceedings, related to the FSA and TMNA. In respect thereof, the plaintiff avers thus (albeit with a caveat that the said proceedings “are not relevant”, with which disclaimer Mr. Akhil Sibal seriously joins issue):

(i) In 2017, Hero Exports initiated arbitral proceedings against Defendant No. 2 Hero Cycles Ltd (hereinafter referred to as “Hero Cycles”), alleging that, by exhibiting bicycles and bicycle parts in countries not allotted to Hero Cycles under the FSA and TMNA, at international fairs and exhibitions, and also exporting its products to countries specifically allotted to the F-1 Family Group, Hero Cycles had breached the FSA and TMNA. (This does not appear to be strictly accurate, as the arbitral proceedings were between M/s Hero Ecotech Ltd. and Hero Cycles, and Hero Exports was later allowed to be impleaded as an additional respondent.) Hero Cycles, on the other hand, asserted, in the said proceedings, that the monogram used by

Hero Cycles was its sole property, and could not be used by any of the other family groups, even in respect of goods and services allotted to them under the FSA or the TMNA.

(ii) The Arbitral Tribunal, vide its final Award dated 18th December, 2018, permitted Hero Cycles to display its products at fairs and exhibitions, conducted in territories specifically allotted to the F-1 group, but did not permit it to effect any sales from these exhibitions, as it held that the right to effect sales was exclusively vested in the F-1 group. The learned Arbitral Tribunal also directed each family group to create its own monogram, clarifying that the FSA and TMNA did not permit other groups to use the monogram of Hero Cycles.

(iii) Hero Ecotech also contended, in the said arbitral proceedings, that Hero Cycles had, after initially entering into the business of electric vehicles under the mark “Lectra”, started publicising the vehicles under the brand name “Hero”, which violated the rights of the F-1 group. This challenge was, however, rejected by the learned Arbitral Tribunal on the ground that the electric cycles marketed by Hero Cycles did not have a throttle and could not, therefore, be regarded as electric vehicles.

10. Hero Exports has challenged the aforesaid award, dated 18th December, 2018, of the learned Arbitral Tribunal, before this Court, under Section 34 of the 1996 Act, vide OMP (Comm) 133/2019, which is presently pending.

11. The plaint alleges that Lectro was manufacturing and selling electric bikes through Hero Electric, and that the said bikes were being promoted by Lectro and Hero Electric, under the brand “Hero”. Further, on 8th February, 2020, according to the plaint, the plaintiffs espied Lectro selling and promoting throttle assisted electric bikes under the brand name “Hero”. This, according to the plaint, was completely *mala fide*, as the defendants were aware that the exclusive right to use the trademark “Hero” and “Hero Electric”, for electric vehicles, vested in the plaintiffs, who had built up a reputation in that regard. Usage of the “Hero” and “Hero Electric” trademarks, by the defendants, for electric bikes, it is asserted, is bound to result in confusion in the market, regarding the actual manufacturer of the electric vehicles. By doing so, alleges the plaint, the defendants have encroached upon the exclusive contractual statutory and common law rights of the plaintiffs, in the trademarks “Hero” and “Hero Electric”, in respect of electric vehicles. Besides, alleges the plaint, Lectro has also applied for registration of the trademark “Hero Lectro”, and its variants, in Class XII for electric vehicles, which evidences the intent of the defendants to continue to use the “Hero” Mark to market their electric bikes.

12. Hero Exports claims exclusive right to use the trademark “Hero” in respect of electric vehicles, as the registered proprietor of the said trademark for the said goods. As such, it is alleged, the defendants, by using the “Hero” trademark, either as such or as a distinctive part of the

trademarks used by them, in respect of electric bikes, had infringed the trademarks of the plaintiffs.

13. The plaint also clarifies, apparently *ex abundanti cautela*, that it is restricted to throttle assisted electric bikes, as pedal assisted electric bikes, without throttles, were subject matter of the arbitral proceedings which culminated in the award dated 18th December, 2018, and form, presently, subject matter of challenge in OMP (Comm) 133/2019, pending in this Court.

14. IA 3381/2020 has been preferred by the defendants under Section 8 of the 1996 Act, seeking reference of the dispute, raised by the plaintiffs in the present suit, to arbitration, in terms of Clause 19.5 of the FSA and Clause 5.6 of the TMNA. These clauses read as under:

Clause 19.5 of the FSA

“The Parties agree that the Facilitator is fully authorized to settle all issues, questions and disputes among two or more Family Groups arising out of or in connection with this Family Settlement Agreement, by acting as a mediator and upon failure of the mediation process, the Four Family Groups shall submit their disputes to the joint arbitration by Mr. Satish Bansal and two other persons to be appointed jointly by the four Patriarchs. The three persons so appointed shall constitute the arbitral tribunal. The arbitration proceedings shall be conducted in accordance with the Indian Arbitration and Conciliation Act, 1996 in the venue of the arbitration shall be New Delhi. The arbitrator shall have the power to decide the disputes by the majority by following summary procedure and shall also have the power to award specific performance.”

Clause 5.6 of the TMNA

“5.6 Dispute Resolution

Each Party and the Confirming Party hereby agrees that Mr. Satish Bansal, senior partner of M/s. B.D.Bansal & Co., Delhi/Amritsar is fully authorized to settle all issues, questions and disputes among two or more Family Groups and/or the Confirming Party arising out of or in connection with this Agreement, by acting as a mediator and upon failure of the mediation process, the Four Family Groups and the Confirming Party shall submit their disputes to the joint arbitration by Mr. Satish Bansal and two other persons to be appointed jointly by the four Patriarchs. The three persons so appointed shall constitute the arbitral tribunal. The arbitration proceedings shall be conducted in accordance with the Indian Arbitration and Conciliation Act, 1996 in the venue of the arbitration shall be New Delhi. The arbitrator shall have the power to decide the disputes by the majority by following summary procedure and shall also have the power to award specific performance.”

15. Defendants submit, in its application, that, after the FSA and TMNA had been executed, any right to use the mark “Hero” was necessarily governed by the provisions of the FSA and TMNA. Any dispute, regarding the usage of the said mark, therefore, would also be relatable to the FSA and TMNA and would, therefore, be subject to the provisions for arbitration, contained therein.

16. The plaintiffs have filed a reply to the defendant’s application under Section 8 of the 1996 Act, and the defendants have filed a rejoinder thereto.

Rival submissions

17. Opposing the application of the defendants, Mr. Sudhir Chandra, learned Senior Counsel pointed out, at the very outset, that the

defendants have sought to challenge the scope of the registrations held by the plaintiffs, for use of the “Hero” and “Hero Electric” trademarks, as not covering electric bikes. In this context, the defendants have contended that (i) the plaintiffs did not possess any trademark registration for the Mark “Hero” for electric cycles/e-cycles, (ii) the defendants, therefore, possessed the exclusive right to own and use the trademark “Hero”, without any prefix or suffix in relation to bicycles, which would include e-cycles and (iii) the expression “bicycles” was comprehensive enough to encompass all types of bicycles, including electric cycles/e-cycles. It was further sought to be contended by the defendants, points out Mr. Sudhir Chandra, that, even if the expression “bikes” was to be read as including bicycles, as the plaintiffs had never done any business in electric bicycles, they could not claim any right to use the “Hero” trademark on electric bicycles, on the basis of the registration held by them in respect of electric bikes. Promotional activities conducted by the plaintiffs, according to the defendants, could not confer, on them, any such right. The submissions of the defendants, contends Mr. Sudhir Chandra, indicate that the defendants were challenging the validity and sweep of the registration held by the plaintiffs in respect of their registered trade mark “Hero”. The issue for consideration before this Court was, therefore, whether “electric bicycles” were also included in the expression “electric bikes”, in respect of which trademark registration was held by the plaintiffs. According to the plaintiffs, this query was required to be answered in the affirmative as (i) Section 7 of the Trade Marks Act, 1999 (hereinafter referred to as “the Trade Marks Act”) and Rule 20 of the Trade Mark Rules, 2017 (hereinafter referred to as “the Trade Marks

Rules”) specified that classification of goods would be governed by the NICE classification, (ii) Class 12 in the NICE classification separately classified bicycles and electric bicycles, in sub- classes 120044 and 120297 and (iii) as Hero Exports was the registered proprietor of the trademark “Hero Electric” for “electric bikes”, and as the expression “bikes” included bicycles, Hero Exports alone was the registered proprietor of the trademark “Hero” for electric bicycles. In determining this issue, no recourse was required to be made either to the FSA of the TMNA, the issue being purely one of law, involving an analysis of the sweep and meaning of the trademark registrations of the parties.

18. Moreover, submits Mr. Sudhir Chandra, the decision of this Court, on the issues in controversy, would operate *in rem*. The decision, if in the plaintiff’s favour, would confer absolute rights on the plaintiffs *in rem*, and could not be regarded as subordinate rights *in personam* emanating out of rights *in rem*. Reliance was placed, for this purpose, on the judgement of the High Court of Madras in *Lifestyle Equities CV PrinsBernhardplein v. QDSeatoman Designs Pvt Ltd*¹ which relied on the judgement of the Supreme Court in *Booz Allen & Hamilton Inc. v. SBI Home Finance Ltd*². The decision of this Court would declare the scope of the trademarks held by the plaintiffs and the defendants, and the description of the goods covered thereby, in law, which would operate as a decision *in rem*, not only against the parties to the present litigation but against all third parties who may choose to infringe the registered trademarks. Mr. Sudhir Chandra independently

¹ 2017 SCC OnLine Mad 7055

² (2011) 5 SCC 532

placed reliance, in this context, on *Booz Allen*², inviting attention to the fact that, in the said decision, disputes relating to “patents, trademarks and copyright” were specifically delineated, by the Supreme Court, as one of the categories of disputes which were generally treated as non-arbitrable – for which purpose reliance was placed on the earlier decision of the Supreme Court in *A. Ayyasamy v. A. Paramasivam*³. Mr. Sudhir Chandra also placed reliance on the judgement of the High Court of Bombay in *Steel Authority of India Ltd v. S.K.S. Ispat & Power Ltd*⁴. In this context, Mr. Sudhir Chandra submitted that, even after Section 8 of the 1996 Act was amended in 2015, it had been held by the Supreme Court in *Emaar MGF Land Ltd v. Aftab Singh*⁵ and *Zenith Drugs & Allied Agencies Pvt Ltd v. Nicholas Piramal Ltd*⁶, that the High Court was required to examine, not merely the existence of an arbitration agreement, but also the arbitrability of the dispute. A suit for infringement of trademarks, relating to Sections 28 and 29 of the Trade Marks Act, he submitted, dealt with the statutory rights of the trademark holder, amenable to adjudication solely in accordance with Section 134 of the Trade Marks Act, which conferred exclusive jurisdiction on the civil court in that regard. The Legal Notice, dated 7th February, 2020, addressed by the defendants to the plaintiffs, too, alleged infringement of trademarks, and not merely violation of the terms of the contract.

19. Mr. Sudhir Chandra further pointed out, in this context, that any challenge, by the defendants, to the validity of the registered trade mark

³ (2016) 10 SCC 386

⁴ 2014 SCC OnLine Bom 4875

⁵ (2019) 12 SCC 751

⁶ 2019 SCC OnLine SC 946

of the plaintiffs, would have to be preferred before the Trade Mark Registry.

20. Mr. Sudhir Chandra also pleaded waiver, by the defendants, of their right to initiate arbitration proceedings, in respect of the dispute at hand, as Hero Electric had filed a civil suit, against the F-1 family group in Patna, relating to use of the mark “Hero”. This resulted, *ipso facto*, in waiver of the right of Hero Electric to invoke the arbitral process, as held by this Court in *Kush Dairy Ltd v. H.P. Printers Pvt Ltd*⁷, *Raj & Associates v. Videsh Sanchar Nigam Ltd*⁸ and *Ministry of Sound International Ltd v. Indus Renaissance Partners Entertainment Pvt Ltd*⁹. The defendants, he submits, could not be permitted to approbate and reprobate. The right to seek recourse to arbitration, being a contractual right, was capable of being waived.

21. At the very least, the aspect of infringement of trademarks being non-arbitrable, Mr. Sudhir Chandra submits that the application of the defendants, under Section 8, cannot be allowed to succeed as, if part of the suit were to be regarded as non-arbitrable, the Court could not relegate the parties to the remedy of arbitration, as the cause of action could not be split. For this purpose, Mr. Sudhir Chandra relies on the judgement of the Supreme Court in *Sukanya Holdings Pvt Ltd v. Jayesh H. Pandya*¹⁰.

⁷ 2013 SCC OnLine Del 1349

⁸ 2004 SCC Online Del 548

⁹ 2009 SCC OnLine Del 11

¹⁰ AIR 2003 SC 2252

22. Mr. Sudhir Chandra also contests the legitimacy of the reliance, by the defendants on the earlier arbitral proceedings between the parties. He submits, at the outset, that, given the fact that the decision of this Court, in the present proceedings, would operate *in rem*, the earlier arbitral proceedings could not result in any estoppel against the plaintiffs. Besides, he submits, the earlier arbitral proceedings did not relate to the statutory trademark rights of the plaintiffs, or the interpretation of the sweep and validity of the registration certificates issued to the plaintiffs by the Registry of Trade Marks. The dispute, in that case, he points out, was whether Hero Cycles (Defendant No 2 herein) had any right to make electric vehicles, as the plaintiffs contended that the exclusive rights to manufacture electric vehicles was with the F-1 Family Group, under the FSA and TMNA. He invited my attention, in this context, to para 19 of the Statement of Claim, para 37 of the Statement of Defence and para 44.41 of the award of the learned Arbitrator in that case. A counter-claim had also been placed, by Hero Cycles, before the learned arbitrator in the said proceedings, that Hero Ecotech had no right to use the monogram of Hero Cycles Ltd., as it had been allotted exclusively to Hero Cycles under the FSA and TMNA. As such, submits Mr. Sudhir Chandra, no issue, much less any pleadings or arguments, had been advanced, in the said proceedings, relating to the violation of the statutory rights of the plaintiffs, under Sections 28 and 29 of the Trade Marks Act, relating to the trademark registration for electric vehicles, issued in the plaintiff's favour by the Registry of Trade Marks.

23. The defendants had, in their application under Section 8, also relied on the fact that the plaintiff had, in the Patna suit filed by Hero Cycles, itself filed an application under Section 8. As such, the defendants had sought to contend that the plaintiffs were estopped from opposing the present application, preferred by the defendants. Mr. Sudhir Chandra submitted that, apart from the fact that there was no estoppel against the law, which expressly forbade arbitration of disputes *in rem*, the controversy before the Patna civil court was completely different from that before this Court in the present case. The claim of Hero Cycles, before the Patna civil court, he points out, was that the F-1 group could not write “manufactured by Hero Ecotech Ltd.”, on its “Kross” range of bicycles, as the business of cycles exclusively devolved on Hero Cycles, under the FSA and TMNA. The F-1 group contested the challenge by contending that the words “manufactured by Hero Ltd.” were not being used by it as a trademark and that, therefore, no violation of the FSA or TMNA could be alleged. In fact, points out Mr. Sudhir Chandra, Hero Cycles had, in its plaint in the said suit, clearly reserved its rights to institute separate legal proceedings against the defendants (i.e. the present plaintiffs) for violating the statutory rights of Hero Cycles under the Trade Marks Act. The filing of an application, under Section 8 of the 1996 Act, by the plaintiffs, before the Patna civil court could not, therefore, be construed as an admission, by the plaintiffs, that statutory rights, under Sections 28 and 29 of the Trade Marks Act, were arbitrable.

24. Without prejudice to these submissions, Mr. Sudhir Chandra submitted that, even if the present dispute were to be regarded as

arbitrable, this Court ought, instead of relegating the plaintiffs to arbitration, to read the present plaint, with the application preferred therein under Order 39 Rules 1 and 2 of the CPC, as a petition under Section 9 of the 1996 At. Such a course of action, he submits, stood approved by the judgements of the Supreme Court in *Sameer Barar v. Ratan Bhushan Jain*¹¹ and *Venture Global Engineering v. Satyam Computer Services Ltd*¹². No prejudice, he submits, would result to the defendants, as a consequence thereof.

25. Opposing the submissions of Mr. Sudhir Chandra, and supporting the application of the defendants, Mr. Akhil Sibal, learned Senior Counsel, drew my attention, initially, to paras 19 to 25 of the plaint, which averred that (i) in 2008, the trademark “Hero Electric”, and its variants, of which “Hero” was the essential part, were registered in favour of Hero Exports under Class XII, *inter alia* in respect of “environment friendly electric bikes” and “electric bikes”, (ii) at that time, Hero Exports was a partnership firm of all the members of the Munjal Group, (iii) subsequently, *vide* the FSA dated 20th May, 2010, Hero Exports, along with its business, was transferred to the F-1 group, (iv) the TMNA, executed on the same day, i.e. 20th May, 2010, also granted exclusive right to use the “Hero” and “Hero Electric” marks, on all electric vehicles including electric bikes, to the F-1 group and (v) the act of the defendants in using the brand “Hero”, for electric cycles, in full awareness of the above facts, was *mala fide*, and entrenched on the plaintiffs’ statutory and common law rights. The claim of the plaintiffs was, therefore, he submits, inextricably

¹¹ (2006) 1 SCC 419

¹² (2008) 4 SCC 190

connected with the FSA/TMNA. Mr. Sibal submits, further, that the plaintiffs could not seek to rely solely on the pre-FSA or pre-TMNA registrations of the “Hero” mark, in view of Articles 17.1 and 17.2 of the FSA and Article 3.7 of the TMNA, which read as under:

Articles 17.1 and 17.2 of the FSA

“17.1 The Parties confirm that Hero Cycles Ltd is the owner of the trademark and brand popularly known as “Hero” under which the Munjal Group carries on its various businesses and entities. The Parties agree and confirm that the “Hero” trademark and brand shall be separated in accordance with a Brand Agreement substantially in form as at Schedule 10 hereto and to be executed by the four Patriarchs, and Hero Cycles as the confirming party.

17.2 Accordingly the Party shall take all such steps as may be required to separate the “Hero” trademark and brand in accordance with the provisions of Article 17.1. The Parties also confirmed that the Four Family Groups agree that the specific mechanics of transfer and realignment of the trademark “Hero” to give effect to the understanding as contained in the Schedule 10 hereto shall be determined by the Facilitator under the advice rendered by a law firm.”

Article 3.7 of the TMNA

“3.7 The Parties agree that they shall execute all applications, agreements, deeds, authorizations and documents as may be necessary to fulfil the purposes of this Agreement and perform all further acts and things and execute and deliver such further documents, as may be required by law or as may be necessary or reasonably required by any of the Parties to implement and give effect to this Agreement, and for the purpose in vesting in F-3 Family Group the full benefit of the ownership rights and benefits in such registrations and applications, and for the further purpose of vesting in F-1 Family Group the perpetual right of ownership and use over F-1 Family Group Trade Marks, including giving of all necessary waivers and consents and the passing of all the resolutions and otherwise exercising all powers and rights available to them.”

26. In order to underscore the precise nature of the controversy between the plaintiffs and the defendants, Mr. Sibal points out that the plaintiffs had themselves acknowledged, both in the present plaint as well as in the previous arbitral proceedings between the parties, that, post-execution of the FSA and TMNA, consequential actions would be required for specific devolution, on the Family Groups, of the right to use the “Hero” trademark, in respect of specific goods. The defendants were submitting, *per contra*, that the Family Settlement, pursuant to which the four F-1 to F-4 Family Groups were constituted, was a complete answer to the claims of the plaintiffs and a complete defence to any infringement action that the plaintiffs would choose to bring, based on the pre-FSA and pre-TMNA registrations of the “Hero” or “Hero Electric” marks. The core issue for consideration, therefore, was the construction of the FSA and TMNA, without which the claims of the plaintiffs could not be decided. The dispute, therefore, arose “out of” and “in connection with” the FSA and TMNA, recourse to which was inevitable for deciding the dispute. The dispute was, therefore, clearly amenable to resolution by arbitration, under the clauses, to that effect, contained in the FSA and TMNA, applying the law laid down in *Renusagar Power Co. Ltd v General Electric Co.*¹³.

27. The fact that, on the date of execution of the FSA and the TMNA, neither HEVPL nor Lectro was in existence, according to Mr. Sibal, did not affect this legal position, as HEVPL and Lectro remained bound by the covenants of the FSA and TMNA, being parts of the F-1 and F-4 family groups. The following covenants of the FSA, points out Mr.

¹³ (1984) 4 SCC 479

Sibal, clearly made its terms applicable in respect of all family group entities, existing as well as to be incorporated in future:

- “E. The Munjal Group comprises of:
- (i) The Four Family Groups;
 - (ii) Operating and investment companies (“Munjal Group Companies”), including companies listed on various stock exchanges in India and more particularly described in Schedule 6 hereto (the “Munjal Listed Companies”);
 - (iii) Hindu undivided families of the members of the 4 Family Groups (“Munjal HuFs”);
 - (iv) Partnerships (“Munjal Partnerships”),
 - (v) Trusts (“Munjal Trusts”), and
 - (vi) Association of persons (“Munjal AoPs”).

Munjal Group Companies, Munjal HUFs, Munjal Partnerships, Munjal Trusts and Munjal AoPs are more particularly described in Schedule F of this Family Settlement Agreement and are, hereinafter collectively referred to as the “Munjal Group Entities”.”

“5.3 Each Party shall remain bound, and because the Munjal Group Entities to be bound, by this Family Settlement Agreement notwithstanding changes which may take place in the future in the entities and businesses comprising of the Munjal Group businesses set out in Schedule 5 of this Family Settlement Agreement.”

“Article VIII Deed of Adherence

8.1 Each of the Patriarchs states and confirms that the Family Settlement recorded herein has been arrived at after full discussions with and consent, and approval and authorisation of Munjal Family Members comprised in his Family Group and agrees and undertakes to cause each member of his Family Group to enter into a Deed of Adherence substantially in form

and content as at Schedule 8A hereto in token reiteration thereof.

8.2 The Parties agree that they shall cause each Munjal Group Entity to agree to be bound by the Family Settlement recorded herein and shall accordingly cause each Munjal Group Entity to execute and enter into a Deed of Adherence substantially in form and content as a Schedule 8B are hereto.”

“22.10 Adoption of Munjal Family Settlement

(a) The Parties agree that they will not take any action which prejudices this Munjal Family Settlement and the redistribution of shares or properties contemplated herein, and shall take all steps including but not limited to realignment of ownership of shares and property, movable or immovable, as required in accordance with this Family Settlement Agreement.

(e) The Parties further agree that they will, to the extent permissible by law, ensure that all persons comply with the terms of this Family Settlement Agreement to whom the terms of this Family Settlement Agreement are applicable but who are not Parties to this Family Settlement Agreement.”

Additionally, the FSA was signed by the four Patriarchs in their individual capacity, as well as in their capacity as Patriarchs and representing all the members of their respective Family Groups “with their consent or approval in their respective individual and all other capacities whatsoever as also as (a) a partner in each of the Munjal Partnerships, (b) a member in each of the Munjal AoPs, (c) a coparcener Karta of the Munjal HUFs of which he is a coparcener/karta, (d) the beneficiary/trustee in each of the Munjal Trusts, and (e) a shareholder of the Munjal Group Companies of which he is a member.”

28. Moreover, submits Mr. Sibal, HEVPL had, in fact, preferred OMP (I) (Comm) 49/2018, under Section 9 of the 1996 Act, against the F-3 Family Group, expressly acknowledging and accepting the fact that it was a party to the arbitration agreements, and stating, further, that HEVPL and the other petitioners in the said OMP were in the process of invoking arbitration for resolving the disputes between the parties, by virtue of Clause 19.5 of the FSA.

29. Mr. Sibal also relies on the Statement of Claim filed by the F-1 Family Group in the earlier arbitral proceedings, in para 9 of which the F-1 Family Group expressly admitted the applicability of Article 22.10(e) of the FSA, thus:

“That it was clearly stipulated in the FSA more particularly in Article 22.10(e) that the parties were to ensure that all persons comply with the terms of the FSA and that the FSA is complied with even by the persons to whom the terms are applicable but who are not parties thereto. Further under Article 22.5, any failure or delay on the part of any party or Family Group in exercise of any of its powers or claim or right or privilege shall not operate as a waiver of any such right, claim, power or privilege. Under the provisions of Article 17.2 of the FSA, the parties had undertaken to take all such steps as may be required to separate the Hero Trade Mark and Brand in accordance with the provisions of Article 17.1 (Schedule 10) so as to give effect to the understanding. Further, under Article 12.1, there were to be no non competing restrictions in relation to existing and future businesses amongst the 4 Family Groups.”

30. Mr. Sibal attempts to point out that HEVPL was claiming its rights to the “Hero” Mark through Hero Exports, and Lectro was asserting its rights through Hero Electric. Being licensees, HEVPL and Lectro were not necessary parties to the arbitral proceedings, as the

rights of their respective licensors, i.e. Hero Exports and Hero Electric, once determined, would also determine their *inter-se* rights. He submits that it was trite, in law, that non-signatories to the arbitration agreement could also be made parties to arbitral proceedings, as held in ***Chloro Controls India Pvt Ltd v. Severn Trent Water Purification Inc.***¹⁴ and ***Cheran Properties Ltd v. Kasturi & Sons Pvt Ltd***¹⁵. Equally, the benefit of Section 8 of the 1996 Act was available to persons claiming “through or under” parties to the arbitration agreement. Reliance has been placed, for this purpose, on ***Ameet Lalchand Shah v. Rishabh Enterprises***¹⁶, ***Fernas Construction v. O.N.G.C.***¹⁷ and ***Jes & Bell v. Hell Energy***¹⁸.

31. Mr. Sibal presses the argument that the earlier arbitral proceedings, between the F-1 and the F-4 Family Groups effectively estopped the plaintiff from treating the dispute, between the plaintiffs and the defendants, as non-arbitrable. Both in the said arbitral proceedings, as well as in OMP (Comm) 133/2019, preferred by the F-1 Family Group by way of challenge to the award dated 18th December, 2018 passed in the said proceedings, Mr. Sibal pointed out that the F-1 Family Group has raised various grounds with respect to e-cycles, including e-cycles with a throttle. For this purpose, Mr. Sibal relies on the following paras, contained in the pleadings of the F-1 Family Group in various proceedings:

Prayers (iii) and (xiv) in the Statement of Claim in the earlier arbitral proceedings

¹⁴ (2013) 1 SCC 641

¹⁵ (2018) 16 SCC 413

¹⁶ (2018) 15 SCC 678

¹⁷ 2019 SCC OnLine Del 8580

¹⁸ 2019 SCC OnLine Del 10225

“It is, therefore, respectfully prayed that: –

(iii) An order of permanent injunction restraining the respondents from infringing the Trade Mark ‘HERO’ in relation to bicycles, parts and components including the packaging material in any of the Territories which are exclusively been allotted to the claimant No. 1/F-1 Family Group under the Family Settlement (Schedule 10) or committing passing off;

(xiv) An order of permanent injunction restraining the respondents from using their Trade Mark ‘HERO’ with or without any suffix or prefix as a Trade Mark or as a Trade Name or a Trade Dress or the Monogram of ‘HERO’ in relation to electric vehicles, environment friendly vehicles, solar energy, wind energy, renewable energy and medical products and lifestyle care equipment or in any manner infringing or violating the Trade Marks ‘HERO EXPORTS’, ‘HERO ELECTRIC’ and ‘HERO ECO’, which has exclusively been allotted to the claimant No. 1/F-1 Family Group under the Family Settlement (Schedule 10) order from committing passing off;”

Ground Q in OMP (Comm) 133/2019

“The Ld. Arbitrator has also erred in merely recording the statement of the Respondents that they are not using the Mark HERO in relation to electric vehicles and rendering a finding on the basis of such a statement that no injunction can be granted in respect of the same. The Ld. Arbitrator has completely failed to consider that the Respondents admit that the product Lectra is an electrically assisted bike not having a motor of its own which entails that it is a Non-Fuel land vehicle/electric vehicle/environment friendly vehicle and under Clause 2 (viii) of the TMNA, the Respondents are not permitted to use the mark/name or Monogram containing HERO for the said products. The finding is contrary to the terms of the agreement. In fact, despite making a statement before the Ld.Arbitrator that HCL is not using the mark HERO for its electrically assisted bike, pursuant to passing of the

award, HCL has started heavily advertising its LECTRO branded E-bikes under the company name HERO CYCLES. One such advertisement was published in the newspaper The Tribune, Ludhiana Edition on 23.02.2019. In the said advertisement, HCL describes its E-bike as “Introducing Lectro - India’s premier electric bicycle,... Experience the thrill of pedal-free biking at the press of a button...”. Additionally, HCL has started advertising their E-Bikes under the corporate name Hero Cycles with the logo of HCL appearing in the advertisement at a large scale by way of hoardings /newspaper advertisements. Photographs of some such hoardings/newspaper advertisements are readily available with the Petitioners. It is apparent from the same that HCL made a blatantly false statement before the Ld. Arbitrator based on which the Ld. Arbitrator refused to adjudicate on the issue of use of HERO in relation to electric bicycles in violation of the agreements between the parties by HCL.”

In fact, submits Mr. Sibal, prayer (xiv) in the Statement of Claim filed by the F-1 Family Group in the earlier arbitral proceedings was wide enough to subsume the prayers in the present suit.

32. Mr. Sibal seriously contests the submission of Mr. Sudhir Chandra that the dispute forming part of the said present proceedings was in the nature of an action *in rem*. He submits that there is a distinction between rights *in rem* and actions *in rem*. The present dispute, he submits, is an action *in personam*, which is arbitrable in nature. He has relied, for this purpose, on *Ministry of Sound⁹, Lifestyle Equities¹, Lifestyle Equities v. Q Dseatoman¹⁹, Booz Allen², Eros International Media Ltd v. Telex Links India Pvt Ltd²⁰*, as well as certain passages from The Law and Practice of Arbitration & Conciliation by O. P. Malhotra, Commercial Arbitration by Mustill &

¹⁹ 2018 SCC OnLine SC 638

²⁰ 2016 SCC OnLine Bom 2179

Boyd and Redfern & Hunter's International Arbitration. Referring, for the said purpose, on the judgement of the High Court of Bombay in ***Rakesh Malhotra v. Rajinder Kumar***²¹, Mr. Sibal submits that the present suit is merely a “dressed up” action, intended to circumvent the arbitral process.

33. Apropos the contention, of the plaintiffs, that Hero Cycles had, in its pleadings before the Patna District Court, asserted that infringement and passing of actions were not amenable to arbitral resolution, being rights *in rem*, Mr. Sibal submits that there can be no estoppel against the law, for which purpose he relies on ***Isabella Johnson v. M. A. Susai***²² and ***State of Rajasthan v. Surendra Mohnot***²³. Mr. Sibal submits that waiver, of the right to seek recourse to an arbitration agreement, is contemplated, under Sections 8 and 4 of the 1996 Act, only if no application, under Section 8, is preferred within the time prescribed therein, i.e. before the date of submitting the first statement on the substance of the dispute. Further, he submits, waiver of the arbitration agreement has to be mutual, and not unilateral, as it involves a right as well as an obligation. The defendants having filed their application, under Section 8 of the 1996 Act, within the prescribed time, Mr. Sibal submits that no waiver, by the defendants, of their right to press the application, can be pleaded by the plaintiffs. He relies, for this purpose, on the judgements of this Court in ***Maruti Udyog Ltd v. Classic Motors Ltd***²⁴ and ***K. V. Prateek Enterprises v. IL&FS***

²¹ 2014 SCC OnLine Bom 1146

²² (1991) 1 SCC 494

²³ (2014) 14 SCC 77

²⁴ 2016 SCC OnLine Del 5860

*Company Ltd*²⁵. In any event, he submits, the F-1 Family Group had itself filed an application, under Section 8, before the Patna District Court, which was pending; moreover, the F-1 Family Group had itself initiated the earlier arbitral proceedings against Hero Cycles in 2016, culminating in the award on 18th December, 2018, to which Hero Exports was a party. In the said arbitral proceedings, the F-4 Family Group, including Hero Cycles, had filed counter-claims, asserting the binding nature of the arbitration agreement, which was admitted by the F-1 Family Group.

34. Mr. Sibal has also opposed the prayer, of Mr. Sudhir Chandra, made without prejudice, to treat the present proceedings as an application under Section 9 of the 1996 Act, were this Court to regard the disputes are being arbitrable in nature.

35. After judgement was reserved in the present case, the Supreme Court rendered its well-known decision in *Vidya Drolia v. Durga Trading Corporation*²⁶. Mr. Sibal, therefore, sought, and was granted, liberty to place an additional note, on record, relying on the said decision. A parallel note, distinguishing the said decision, has also been filed by the plaintiffs.

Analysis

36. Sub-section (1) of Section 8 of the 1996 Act, prior to its amendment by the Arbitration and Conciliation (Amendment) Act, 2016 (hereinafter referred to as “the 2016 Amendment Act”) read thus:

²⁵ 2017 SCC Online Del 8286

²⁶ (2021) 2 SCC 1

“8. Power to refer the parties to arbitration where there is an arbitration agreement. –

(1) A judicial authority before which an action is brought in a matter which is the subject of an arbitration agreement shall, if a party so applies not later than when submitting his first statement on the substance of the dispute, refer the parties to arbitration.”

Section 8 (1) was, however, amended, by Section 4(i) of the 2016 Amendment Act, to read thus:

“(1) A judicial authority, before which an action is brought in a matter which is the subject of an arbitration agreement shall, if a party to the arbitration agreement or any person claiming through or under him, so applies not later than the date of submitting his first statement on the substance of the dispute, then, notwithstanding any judgment, decree or order of the Supreme Court or any Court, refer the parties to arbitration unless it finds that prima facie no valid arbitration agreement exists.”

37. *Vidya Drolia*²⁶, in which concurring opinions were rendered by N. V. Ramana, J. and Sanjiv Khanna, J., authoritatively expounds on the scope of the jurisdiction of a Court, examining an application under Section 8 of the 1996 Act. The following passages, from the said decision, merit reproduction, in the context of the controversy at hand:

“**28.** Another facet, not highlighted earlier, arises from the dictum in *Sukanya Holdings (P) Ltd. v. Jayesh H. Pandya*¹⁰, a decision upholding rejection of an application under Section 8, on the ground that there is no provision in the Arbitration Act to bifurcate and divide the causes or parties, that is, the subject matter of the suit/judicial proceedings, and parties to the arbitration agreement. *The suit should be in respect of a ‘matter’ which the parties have agreed to refer and which comes within the ambit of the arbitration agreement. The words ‘a matter’, it was interpreted, would indicate that the entire subject matter of the suit should be subject to arbitration agreement. Bifurcation of subject-matter or causes of action in*

the suit is not permissible and contemplated. Similarly, the parties to the suit should be bound by the arbitration agreement, as there is no provision in the Arbitration Act to compel third persons who have not exercised the option to give up the right to have access to courts and be bound by the arbitration clause. This would violate party autonomy and consensual nature of arbitration. Bifurcation in such cases would result in a suit being divided into two parts, one being decided by the Arbitral Tribunal, and the other by the court or judicial authorities. This would defeat the entire purpose and inevitably delay the proceedings and increase cost of litigation, cause harassment and on occasions give rise to conflicting judgments and orders by two different fora. Cause of action in relation to the subject matter relates to the scope of the arbitration agreement and whether the dispute can be resolved by arbitration. Second mandate relating to common parties expounds the inherent limitation of the arbitration process which is consensual and mutual, an aspect we would subsequently examine.

29. A two-Judge Bench in *Booz Allen & Hamilton Inc. v. SBI Home Finance Ltd.*², while interpreting the dictum in *Sukanya Holdings (P) Ltd.*¹⁰, had drawn a distinction between ambit and scope of judicial inquiry while deciding an application under Section 8(1) of the Arbitration Act which is filed in pending civil suit/judicial proceedings and an application for reference of the dispute to arbitration under Section 11 of the Arbitration Act. In *Booz Allen & Hamilton Inc.*² it was observed: (SCC p. 545, para 32)

“32. The nature and scope of issues arising for consideration in an application under Section 11 of the Act for appointment of arbitrators, are far narrower than those arising in an application under Section 8 of the Act, seeking reference of the parties to a suit to arbitration. While considering an application under Section 11 of the Act, the Chief Justice or his designate would not embark upon an examination of the issue of “arbitrability” or appropriateness of adjudication by a private forum, once he finds that there was an arbitration agreement between or among the parties, and would leave the issue of arbitrability for the decision of the Arbitral Tribunal. If the arbitrator wrongly holds that the dispute is arbitrable, the aggrieved party will have

to challenge the award by filing an application under Section 34 of the Act, relying upon sub-section (2)(b)(i) of that section.”

30. However, in *SBP & Co. v. Patel Engg. Ltd.*²⁷, the majority judgment of the Constitution Bench of seven Judges had noticed the complementary nature of Sections 8 and 11 of the Arbitration Act, and has observed: (SCC p. 647, para 16)

“16. We may at this stage notice the complementary nature of Sections 8 and 11. Where there is an arbitration agreement between the parties and one of the parties, ignoring it, files an action before a judicial authority and the other party raises the objection that there is an arbitration clause, the judicial authority has to consider that objection and if the objection is found sustainable to refer the parties to arbitration. The expression used in this section is “shall” and this Court in *P. Anand Gajapathi Raju v. P.V.G. Raju*²⁸ and in *Hindustan Petroleum Corpn. Ltd. v. Pinkcity Midway Petroleums*²⁹ has held that the judicial authority is bound to refer the matter to arbitration once the existence of a valid arbitration clause is established. Thus, the judicial authority is entitled to, has to and is bound to decide the jurisdictional issue raised before it, before making or declining to make a reference. Section 11 only covers another situation. Where one of the parties has refused to act in terms of the arbitration agreement, the other party moves the Chief Justice under Section 11 of the Act to have an arbitrator appointed and the first party objects, it would be incongruous to hold that the Chief Justice cannot decide the question of his own jurisdiction to appoint an arbitrator when in a parallel situation, the judicial authority can do so. Obviously, the highest judicial authority has to decide that question and his competence to decide cannot be questioned. If it is held that the Chief Justice has no right or duty to decide the question or cannot decide the question, it will lead to an anomalous situation in that a judicial authority under Section 8 can decide, but not a Chief Justice under

²⁷ (2008) 5 SCC 618

²⁸ (2000) 4 SCC 539

²⁹ (2003) 6 SCC 503

Section 11, though the nature of the objection is the same and the consequence of accepting the objection in one case and rejecting it in the other, is also the same, namely, sending the parties to arbitration. The interpretation of Section 11 that we have adopted would not give room for such an anomaly.”

31. *We are clearly bound by the dictum of the Constitution Bench judgment in **Patel Engg. Ltd.**²⁷ that the scope and ambit of court's jurisdiction under Section 8 or 11 of the Arbitration Act is similar. An application under Section 11 of the Arbitration Act need not set out in detail the disputes or the claims and may briefly refer to the subject-matter or broad contours of the dispute. However, where judicial proceedings are initiated and pending, specific details of the claims and disputes are normally pleaded and, therefore, the court or the judicial authority has the advantage of these details. There is a difference between a non-arbitrable claim and non-arbitrable subject-matter. Former may arise on account of scope of the arbitration agreement and also when the claim is not capable of being resolved through arbitration. Generally non-arbitrability of the subject-matter would relate to non-arbitrability in law.*

33. Sub-section (3) of Section 2 of the Arbitration Act states:

“2. (3) This Part shall not affect any other law for the time being in force by virtue of which certain disputes may not be submitted to arbitration.”

The Arbitration Act clearly recognises and accepts that certain disputes or subjects are not capable of being resolved by arbitration. Similarly, Section 34(2)(b)(i) of the Arbitration Act states that the courts may set aside awards when they find that “the subject-matter of the dispute is not capable of settlement by arbitration”. However, *the two sub-sections conspicuously do not enumerate or categorise non-arbitrable matters or state the principles for determining when a dispute is non-arbitrable by virtue of any other law for the time being in force. It is left to the courts by ex visceribus actus to formulate the principles for determining non-arbitrability.* As, exclusion from

arbitrability is predominantly a matter of case law, we begin by examining the case law on the subject.

76. In view of the above discussion, *we would like to propound a fourfold test for determining when the subject-matter of a dispute in an arbitration agreement is not arbitrable:*

76.1. (1) *When cause of action and subject-matter of the dispute relates to actions in rem, that do not pertain to subordinate rights in personam that arise from rights in rem.*

76.2. (2) *When cause of action and subject-matter of the dispute affects third-party rights; have erga omnes effect; require centralised adjudication, and mutual adjudication would not be appropriate and enforceable.*

76.3. (3) *When cause of action and subject-matter of the dispute relates to inalienable sovereign and public interest functions of the State and hence mutual adjudication would be unenforceable.*

76.4. (4) *When the subject-matter of the dispute is expressly or by necessary implication non-arbitrable as per mandatory statute(s).*

76.5. *These tests are not watertight compartments; they dovetail and overlap, albeit when applied holistically and pragmatically will help and assist in determining and ascertaining with great degree of certainty when as per law in India, a dispute or subject-matter is non-arbitrable. Only when the answer is affirmative that the subject-matter of the dispute would be non-arbitrable.*

76.6. *However, the aforesaid principles have to be applied with care and caution as observed **Olympus Superstructures (P) Ltd. v. Meena Vijay Khetan**³⁰ (SCC p. 669, para 35)*

“35. ... Reference is made there to certain disputes like criminal offences of a public nature, disputes arising out of illegal agreements and disputes relating to status,

³⁰ (1999) 5 SCC 651

such as divorce, which cannot be referred to arbitration. It has, however, been held that if in respect of facts relating to a criminal matter, say, physical injury, if there is a right to damages for personal injury, then such a dispute can be referred to arbitration (Keir v. Leeman³¹). Similarly, it has been held that a husband and a wife may refer to arbitration the terms on which they shall separate, because they can make a valid agreement between themselves on that matter (Soilleux v. Herbst³², Wilson v. Wilson³³, and Cahill v. Cahill³⁴).”

77. Applying the above principles to determine non-arbitrability, it is apparent that *insolvency or intracompany disputes have to be addressed by a centralised forum, be the court or a special forum, which would be more efficient and has complete jurisdiction to efficaciously and fully dispose of the entire matter. They are also actions in rem. Similarly, grant and issue of patents and registration of trade marks are exclusive matters falling within the sovereign or government functions and have erga omnes effect. Such grants confer monopoly rights. They are non-arbitrable. Criminal cases again are not arbitrable as they relate to sovereign functions of the State. Further, violations of criminal law are offences against the State and not just against the victim. Matrimonial disputes relating to the dissolution of marriage, restitution of conjugal rights, etc. are not arbitrable as they fall within the ambit of sovereign functions and do not have any commercial and economic value. The decisions have erga omnes effect. Matters relating to probate, testamentary matter, etc. are actions in rem and are a declaration to the world at large and hence are non-arbitrable.*

78. In view of the aforesaid discussions, we overrule the ratio in *N. Radhakrishnan v. Maestro Engineers*³⁵ inter alia observing that allegations of fraud can (*sic* cannot) be made a subject-matter of arbitration when they relate to a civil dispute. This is subject to the caveat that fraud, which would vitiate and invalidate the arbitration clause, is an aspect relating to non-

³¹ (1846) 9 QB 371

³² (1801) 2 Bos & P 444 : 126 ER 1376

³³ (1848) 1 HL Cas 538

³⁴ (1883) LR 8 AC 420 (HL)

³⁵ (2010) 1 SCC 72

arbitrability. We have also set aside the Full Bench decision of the Delhi High Court in ***HDFC Bank Ltd. v. Satpal Singh Bakshi***³⁶ which holds that the disputes which are to be adjudicated by the DRT under the DRT Act are arbitrable. They are non-arbitrable.

79. *Landlord-tenant disputes governed by the Transfer of Property Act are arbitrable as they are not actions in rem but pertain to subordinate rights in personam that arise from rights in rem. Such actions normally would not affect third-party rights or have erga omnes effect or require centralised adjudication. An award passed deciding landlord-tenant disputes can be executed and enforced like a decree of the civil court. Landlord-tenant disputes do not relate to inalienable and sovereign functions of the State. The provisions of the Transfer of Property Act do not expressly or by necessary implication bar arbitration. The Transfer of Property Act, like all other Acts, has a public purpose, that is, to regulate landlord-tenant relationships and the arbitrator would be bound by the provisions, including provisions which enure and protect the tenants.*

82. *Issue of non-arbitrability can be raised at three stages. First, before the court on an application for reference under Section 11 or for stay of pending judicial proceedings and reference under Section 8 of the Arbitration Act; secondly, before the Arbitral Tribunal during the course of the arbitration proceedings; or thirdly, before the court at the stage of the challenge to the award or its enforcement. Therefore, the question — “Who decides non-arbitrability?” and, in particular, the jurisdiction of the court at the first look stage, that is, the referral stage.*

103. *On the ambit of the court's jurisdiction at the reference stage, it was observed in ***Shin-Etsu Chemical Co. Ltd. v. Aksh Optifibre Ltd.***³⁷, that the correct approach to the review of the arbitration agreement would be restricted to prima facie*

³⁶ 2013 (134) DRJ 566

³⁷ (2005) 7 SCC 234

finding that there exists an arbitration agreement that is not null and void, inoperative or incapable of being performed. The key rationale for holding that the courts' review of the arbitration agreement should be limited to a prima facie standard is the principle of competence-competence.

106. In *Mayavati Trading (P) Ltd. v. Pradyut Deb Burman*³⁸, a three-Judge Bench has held that the legislature by inserting sub-section (6-A) to Section 11 and making amendments to Section 8 by Act 3 of 2016 has legislatively introduced a new regime so as to dilute and legislatively overrule the effect and ratio of the judgment of this Court in *Patel Engg. Ltd.*²⁷. Reliance was placed on paras 48 and 59 in *Duro Felguera, S.A. v. Gangavaram Port Ltd.*³⁹. The concluding paragraph in *Mayavati Trading (P) Ltd.*³⁸ records: (SCC pp. 724-25, para 10)

“10. This being the position, *it is clear that the law prior to the 2015 Amendment that has been laid down by this Court, which would have included going into whether accord and satisfaction has taken place, has now been legislatively overruled. This being the position, it is difficult to agree with the reasoning contained in the aforesaid judgment (United India Insurance Co. Ltd. v. Antique Art Exports (P) Ltd.*⁴⁰), as Section 11(6-A) is confined to the examination of the existence of an arbitration agreement and is to be understood in the narrow sense as has been laid down in the judgment in *Duro Felguera, S.A.*³⁹.”

(emphasis in original)

107. Para 48 and para 59 of *Duro Felguera, S.A.*³⁹ referred to above, read as under: (SCC pp. 759 & 765)

“48. ... *From a reading of Section 11(6-A), the intention of the legislature is crystal clear i.e. the court should and need only look into one aspect—the existence of an arbitration agreement. What are the factors for deciding as to whether there is an arbitration*

³⁸ (2019) 8 SCC 714

³⁹ (2017) 9 SCC 729

⁴⁰ (2019) 5 SCC 362

agreement is the next question. The resolution to that is simple—it needs to be seen if the agreement contains a clause which provides for arbitration pertaining to the disputes which have arisen between the parties to the agreement.

59. *The scope of the power under Section 11(6) of the 1996 Act was considerably wide in view of the decisions in **SBP & Co.**²⁷ and **National Insurance Co. Ltd. v. Boghara Polyfab (P) Ltd.**⁴¹. This position continued till the amendment brought about in 2015. After the amendment, all that the courts need to see is whether an arbitration agreement exists—nothing more, nothing less. The legislative policy and purpose is essentially to minimise the Court's intervention at the stage of appointing the arbitrator and this intention as incorporated in Section 11(6-A) ought to be respected.”*

115. This decision in **Oriental Insurance Co. Ltd. v. Narbheram Power & Steel (P) Ltd.**⁴², was followed in **United India Insurance Co. Ltd. v. Hyundai Engg. & Construction Co. Ltd.**⁴³, wherein a similar arbitration clause had come up for consideration. However, in this case, reference was made to Section 11(6-A) of the Arbitration Act. It is, therefore, clear that on two occasions, in **Narbheram Power & Steel (P) Ltd.**⁴² and **Hyundai Engg. & Construction Co. Ltd.**⁴³, a three-Judge Bench of this Court affirmatively and in clear terms held that the question of non-arbitrability relating to the enquiry whether the dispute was governed by the arbitration clause, can be examined by the courts at the reference stage and may not be left unanswered to be examined and decided by the Arbitral Tribunal. These are decisions by a Bench of three Judges and, as noticed above, were quoted with affirmation in **Garware Wall Ropes Ltd. v. Coastal Marine Constructions & Engg. Ltd.**⁴⁴ by a Bench of two Judges.

⁴¹ (2009) 1 SCC 267

⁴² (2018) 6 SCC 534

⁴³ (2018) 17 SCC 607

⁴⁴ (2019) 9 SCC 209

132. *The courts at the referral stage do not perform ministerial functions. They exercise and perform judicial functions when they decide objections in terms of Sections 8 and 11 of the Arbitration Act. Section 8 prescribes the courts to refer the parties to arbitration, if the action brought is the subject of an arbitration agreement, unless it finds that prima facie no valid arbitration agreement exists. Examining the term “prima facie”, in **Nirmala J. Jhala v. State of Gujarat**⁴⁵, this Court had noted: (SCC p. 320, para 48)*

“48. ‘27. ... A prima facie case does not mean a case proved to the hilt but a case which can be said to be established if the evidence which is led in support of the case were [to be] believed. While determining whether a prima facie case had been made out or not the relevant consideration is whether on the evidence led it was possible to arrive at the conclusion in question and not whether that was the only conclusion which could be arrived at on that evidence.’”

133. *Prima facie case in the context of Section 8 is not to be confused with the merits of the case put up by the parties which has to be established before the Arbitral Tribunal. It is restricted to the subject-matter of the suit being prima facie arbitrable under a valid arbitration agreement. Prima facie case means that the assertions on these aspects are bona fide. When read with the principles of separation and competence-competence and Section 34 of the Arbitration Act, the referral court without getting bogged down would compel the parties to abide unless there are good and substantial reasons to the contrary.*

134. *Prima facie examination is not full review but a primary first review to weed out manifestly and ex facie non-existent and invalid arbitration agreements and non-arbitrable disputes. The prima facie review at the reference stage is to cut the deadwood and trim off the side branches in straightforward cases where dismissal is barefaced and pellucid and when on the facts and law the litigation must stop at the first stage. Only when the court is certain that no valid arbitration agreement exists or the disputes/subject-matter are not arbitrable, the*

⁴⁵ (2013) 4 SCC 301

*application under Section 8 would be rejected. At this stage, the court should not get lost in thickets and decide debatable questions of facts. Referral proceedings are preliminary and summary and not a mini trial. This necessarily reflects on the nature of the jurisdiction exercised by the court and in this context, the observations of B.N. Srikrishna, J. of “plainly arguable” case in **Shin-Etsu Chemical Co. Ltd.**⁴⁶ are of importance and relevance. Similar views are expressed by this Court in **Vimal Kishor Shah v. Jayesh Dinesh Shah**⁴⁶, the test applied at the pre-arbitration stage was whether there is a “good arguable case” for the existence of an arbitration agreement.*

136. Appropriate at this stage would be a reference to the judgment of the Delhi High Court in **NCC Ltd. v. Indian Oil Corporation Ltd.**⁴⁷, wherein it has been held as under:

“59.1 In my view, the scope of examination as to whether or not the claims lodged are Notified Claims has narrowed down considerably in view of the language of Section 11(6A) of the 1996 Act. To my mind, once the Court is persuaded that it has jurisdiction to entertain a Section 11 petition all that is required to examine is as to whether or not an arbitration agreement exists between the parties which is relatable to the dispute at hand. The latter part of the exercise adverted to above, which involves correlating the dispute with the arbitration agreement obtaining between the parties, is an aspect which is implicitly embedded in sub-section (6A) of Section 11 of the 1996 Act, which, otherwise, requires the Court to confine its examination only to the existence of the arbitration agreement. Therefore, if on a bare perusal of the agreement it is found that a particular dispute is not relatable to the arbitration agreement, then, perhaps, the Court may decline the relief sought for by a party in a Section 11 petition. However, if there is a contestation with regard to the issue as to whether the dispute falls within the realm of the arbitration agreement, then, the

⁴⁶ (2016) 8 SCC 788

⁴⁷ Judgement dt 8th February, 2019 in [Arb P 115/2018](#)

best course would be to allow the arbitrator to form a view in the matter.

59.2 Thus, *unless it is in a manner of speech, a chalk and cheese situation or a black and white situation without shades of grey, the concerned court hearing the Section 11 petition should follow the more conservative course of allowing parties to have their say before the arbitral tribunal.*”

137. The nature and facet of non-arbitrability could also determine the level and nature of scrutiny by the court at the referral stage. Stravos Brekoulakis has differentiated between contractual aspects of arbitration agreement which the court can examine at referral stage and jurisdictional aspects of arbitration agreement which he feels should be left to the arbitral tribunal. John J. Barcelo III, referring to some American decisions had divided the issue of non-arbitrability into procedural and substantive objections. The procedurals are ‘gateway questions’ which would presumptively be for the arbitrator to decide at least at the first stage.

138. In the Indian context, we would respectfully adopt the three categories in ***Boghara Polyfab Private Limited***⁴¹. *The first category of issues, namely, whether the party has approached the appropriate High Court, whether there is an arbitration agreement and whether the party who has applied for reference is party to such agreement would be subject to more thorough examination in comparison to the second and third categories/issues which are presumptively, save in exceptional cases, for the arbitrator to decide. In the first category, we would add and include the question or issue relating to whether the cause of action relates to action in personam or rem; whether the subject matter of the dispute affects third party rights, have erga omnes effect, requires centralized adjudication; whether the subject matter relates to inalienable sovereign and public interest functions of the State; and whether the subject matter of dispute is expressly or by necessary implication non-arbitrable as per mandatory statute(s). Such questions arise rarely and, when they arise, are on most occasions questions of law. On the other hand, issues relating to contract formation, existence, validity and non-arbitrability would be connected and intertwined with the issues underlying the merits of the respective disputes/claims.*

They would be factual and disputed and for the arbitral tribunal to decide.

139. *We would not like be too prescriptive, albeit observe that the court may for legitimate reasons, to prevent wastage of public and private resources, can exercise judicial discretion to conduct an intense yet summary prima facie review while remaining conscious that it is to assist the arbitration procedure and not usurp jurisdiction of the arbitral tribunal. Undertaking a detailed full review or a long-drawn review at the referral stage would obstruct and cause delay undermining the integrity and efficacy of arbitration as a dispute resolution mechanism. Conversely, if the court becomes too reluctant to intervene, it may undermine effectiveness of both the arbitration and the court. There are certain cases where the prima facie examination may require a deeper consideration. The court's challenge is to find the right amount of and the context when it would examine the prima facie case or exercise restraint. The legal order needs a right balance between avoiding arbitration obstructing tactics at referral stage and protecting parties from being forced to arbitrate when the matter is clearly non-arbitrable.*

140. *Accordingly, when it appears that prima facie review would be inconclusive, or on consideration inadequate as it requires detailed examination, the matter should be left for final determination by the arbitral tribunal selected by the parties by consent. The underlying rationale being not to delay or defer and to discourage parties from using referral proceeding as a ruse to delay and obstruct. In such cases a full review by the courts at this stage would encroach on the jurisdiction of the arbitral tribunal and violate the legislative scheme allocating jurisdiction between the courts and the arbitral tribunal. Centralisation of litigation with the arbitral tribunal as the primary and first adjudicator is beneficent as it helps in quicker and efficient resolution of disputes.*

141. *The Court would exercise discretion and refer the disputes to arbitration when it is satisfied that the contest requires the arbitral tribunal should first decide the disputes and rule on nonarbitrability. Similarly, discretion should be exercised when the party opposing arbitration is adopting delaying tactics and impairing the referral proceedings.*

144. As observed earlier, *Patel Engineering Ltd.*³⁷ explains and holds that Sections 8 and 11 are complementary in nature as both relate to reference to arbitration. Section 8 applies when judicial proceeding is pending and an application is filed for stay of judicial proceeding and for reference to arbitration. Amendments to Section 8 vide Act 3 of 2016 have not been omitted. Section 11 covers the situation where the parties approach a court for appointment of an arbitrator. *Mayavati Trading Private Ltd.*³⁸, in our humble opinion, rightly holds that *Patel Engineering Ltd.*³⁷ has been legislatively overruled and hence would not apply even post omission of sub-section (6-A) to Section 11 of the Arbitration Act. *Mayavati Trading Private Ltd.*³⁸ has elaborated upon the object and purposes and history of the amendment to Section 11, with reference to sub-section (6-A) to elucidate that the Section, as originally enacted, was facsimile with Article 11 of the UNCITRAL Model of law of arbitration on which the Arbitration Act was drafted and enacted. Referring to the legislative scheme of Section 11, different interpretations, and the Law Commission's Reports, it has been held that the omitted sub-section (6-A) to Section 11 of the Arbitration Act would continue to apply and guide the courts on its scope of jurisdiction at stage one, that is the pre-arbitration stage. Omission of sub-section (6-A) by Act 33 of 2019 was with the specific object and purpose and is relatable to by substitution of sub-sections (12), (13) and (14) to Section 11 of the Arbitration Act by Act 33 of 2019, which, vide sub-section (3A) stipulates that the High Court and this court shall have the power to designate the arbitral institutions which have been so graded by the Council under Section 43-I, provided where a graded arbitral institution is not available, the concerned High Court shall maintain a panel of arbitrators for discharging the function and thereupon the High Court shall perform the duty of an arbitral institution for reference to the arbitral tribunal. Therefore, it would be wrong to accept that post omission of sub-section (6-A) to Section 11 the ratio in *Patel Engineering Ltd.*³⁷ would become applicable.

147. We would proceed to elaborate and give further reasons:

147.4 Most jurisdictions accept and require *prima facie* review by the court on non-arbitrability aspects at the referral stage.

147.5 Sections 8 and 11 of the Arbitration Act are complementary provisions as was held in *Patel Engineering Ltd.*³⁷ The object and purpose behind the two provisions is identical to compel and force parties to abide by their contractual understanding. This being so, the two provisions should be read as laying down similar standard and not as laying down different and separate parameters. Section 11 does not prescribe any standard of judicial review by the court for determining whether an arbitration agreement is in existence. Section 8 states that the judicial review at the stage of reference is *prima facie* and not final. *Prima facie* standard equally applies when the power of judicial review is exercised by the court under Section 11 of the Arbitration Act. Therefore, we can read the mandate of valid arbitration agreement in Section 8 into mandate of Section 11, that is, ‘existence of an arbitration agreement’.

147.6 *Exercise of power of prima facie judicial review of existence as including validity is justified as a court is the first forum that examines and decides the request for the referral. Absolute “hands off” approach would be counterproductive and harm arbitration, as an alternative dispute resolution mechanism. Limited, yet effective intervention is acceptable as it does not obstruct but effectuates arbitration.*

147.7 Exercise of the limited *prima facie* review does not in any way interfere with the principle of competence-competence and separation as to obstruct arbitration proceedings but *ensures that vexatious and frivolous matters get over at the initial stage.*

147.9 Even in *Duro Felguera*³⁹, Kurian Joseph, J., in paragraph 52, had referred to Section 7(5) and thereafter in paragraph 53 referred to a judgment of this Court in *M.R. Engineers and Contractors Private Limited v. Som Datt*

*Builders Limited*⁴⁸ to observe that the analysis in the said case supports the final conclusion that the Memorandum of Understanding in the said case did not incorporate an arbitration clause. Thereafter, reference was specifically made to *Patel Engineering Ltd.*³⁷ and *Boghara Polyfab Private Limited*⁴¹ to observe that *the legislative policy is essential to minimise court's interference at the pre-arbitral stage and this was the intention of sub-section (6) to Section 11 of the Arbitration Act. Paragraph 48 in Duro Felguera*³⁹ *specifically states that the resolution has to exist in the arbitration agreement, and it is for the court to see if the agreement contains a clause which provides for arbitration of disputes which have arisen between the parties. Paragraph 59 is more restrictive and requires the court to see whether an arbitration agreement exists - nothing more, nothing less. Read with the other findings, it would be appropriate to read the two paragraphs as laying down the legal ratio that the court is required to see if the underlying contract contains an arbitration clause for arbitration of the disputes which have arisen between the parties - nothing more, nothing less. Reference to decisions in Patel Engineering Ltd.*³⁷ *and Boghara Polyfab Private Limited*⁴¹ *was to highlight that at the reference stage, post the amendments vide Act 3 of 2016, the court would not go into and finally decide different aspects that were highlighted in the two decisions.*

147.10 In addition to *Garware Wall Ropes Limited case*⁴⁴, this Court in *Narbheram Power and Steel Private Limited*⁴⁹ and *Hyundai Engg. & Construction Co. Ltd.*⁴³, both decisions of three Judges, has rejected the application for reference in the insurance contracts holding that the claim was beyond and not covered by the arbitration agreement. The court felt that the legal position was beyond doubt as the scope of the arbitration clause was fully covered by the dictum in *Vulcan Insurance Co. Ltd*⁵⁰. Similarly, in *PSA Mumbai Investments Pte. Limited*⁵¹, this Court at the referral stage came to the conclusion that the arbitration clause would not be applicable and govern the disputes. Accordingly, the reference

⁴⁸ (2009) 7 SCC 696

⁴⁹ *Oriental Insurance Co. Ltd v. Narbheram Power & Steel Pvt Ltd*, (2018) 6 SCC 534

⁵⁰ *Vulcan Insurance Co. Ltd v. Maharaj Singh*, (1976) 1 SCC 943

⁵¹ *PSA Mumbai Investments Pte Ltd v. Board of Trustees of the Jawaharlal Nehru Port Trust*, Civil Appeal No. 9352 of 2018, decided on 11th September, 2018

to the arbitral tribunal was set aside leaving the respondent to pursue its claim before an appropriate forum.

147.11 *The interpretation appropriately balances the allocation of the decision-making authority between the court at the referral stage and the arbitrators' primary jurisdiction to decide disputes on merits. The court as the judicial forum of the first instance can exercise prima facie test jurisdiction to screen and knockdown ex facie meritless, frivolous and dishonest litigation. Limited jurisdiction of the courts ensures expeditious, alacritous and efficient disposal when required at the referral stage.*

148. Section 43(1) of the Arbitration Act states that the Limitation Act, 1963 shall apply to arbitrations as it applies to court proceedings. Sub-section (2) states that for the purposes of the Arbitration Act and Limitation Act, arbitration shall be deemed to have commenced on the date referred to in Section 21. Limitation law is procedural and normally disputes, being factual, would be for the arbitrator to decide guided by the facts found and the law applicable. *The court at the referral stage can interfere only when it is manifest that the claims are ex facie time barred and dead, or there is no subsisting dispute. All other cases should be referred to the arbitral tribunal for decision on merits.* Similar would be the position in case of disputed 'no claim certificate' or defence on the plea of novation and 'accord and satisfaction'. As observed in **Premium Nafta Products Ltd.**⁵², *it is not to be expected that commercial men while entering transactions inter se would knowingly create a system which would require that the court should first decide whether the contract should be rectified or avoided or rescinded, as the case may be, and then if the contract is held to be valid, it would require the arbitrator to resolve the issues that have arisen.*

136. *Which approach as to interpretation of an arbitration agreement should be adopted in a particular case would depend upon various factors including the language, the parties, nature of relationship, the factual background in which the arbitration agreement was entered, etc. In case of*

⁵² **Filli Shipping Co. Ltd v. Premium Nafta Products Ltd, 2007 UKHL 40 : 2097 Bus LR 1719 (HL)**

pure commercial disputes, more appropriate principle of interpretation would be the one of liberal construction as there is a presumption in favour of one-stop adjudication.

138. Discussion under the heading ‘Who decides Arbitrability?’ can be crystallized as under:

(a) Ratio of the decision in *Patel Engineering Ltd.*³⁷ on the scope of judicial review by the court while deciding an application under Sections 8 or 11 of the Arbitration Act, post the amendments by Act 3 of 2016 (with retrospective effect from 23.10.2015) and even post the amendments vide Act 33 of 2019 (with effect from 09.08.2019), is no longer applicable.

(b) *Scope of judicial review and jurisdiction of the court under Section 8 and 11 of the Arbitration Act is identical but extremely limited and restricted.*

(c) The general rule and principle, in view of the legislative mandate clear from Act 3 of 2016 and Act 33 of 2019, and the principle of severability and competence-competence, is that *the arbitral tribunal is the preferred first authority to determine and decide all questions of non-arbitrability.* The court has been conferred power of “second look” on aspects of non-arbitrability post the award in terms of sub-clauses (i), (ii) or (iv) of Section 34(2)(a) or sub-clause (i) of Section 34(2)(b) of the Arbitration Act.

(d) *Rarely as a demurrer the court may interfere at the Section 8 or 11 stage when it is manifestly and ex facie certain that the arbitration agreement is nonexistent, invalid or the disputes are non-arbitrable, though the nature and facet of non-arbitrability would, to some extent, determine the level and nature of judicial scrutiny. The restricted and limited review is to check and protect parties from being forced to arbitrate when the matter is demonstrably ‘non-arbitrable’ and to cut off the deadwood. The court by default would refer the matter when contentions relating to non-arbitrability are plainly arguable; when consideration*

in summary proceedings would be insufficient and inconclusive; when facts are contested; when the party opposing arbitration adopts delaying tactics or impairs conduct of arbitration proceedings. This is not the stage for the court to enter into a mini trial or elaborate review so as to usurp the jurisdiction of the arbitral tribunal but to affirm and uphold integrity and efficacy of arbitration as an alternative dispute resolution mechanism.”

(Emphasis supplied throughout)

38. *Vidya Drolia*²⁶, despite being a judgement of two months' vintage, has been followed, subsequently, by this Court as well as by other High Courts, in several decisions. It represents, as it were, the latest authoritative exposition, by the Supreme Court, of the scope and ambit of Sections 8 and 11 of the 1996 Act, as well as the reach of the jurisdiction of the High Court, exercising authority under the said provisions.

39. The following clear principles emerge, from *Vidya Drolia*²⁶, insofar as Section 8 is concerned:

(i) The ambit of the jurisdiction of the High Court, under Sections 8 and 11 of the 1996 Act, is identical.

(ii) The parties can be relegated to arbitration, in respect of a dispute regarding which the suit is pending, only if the entire subject matter of the suit is arbitrable under the arbitration agreement between the parties, who are bound by the said arbitration agreement. The cause of action in the suit cannot be bifurcated and referred, in part, to arbitration.

(iii) Section 8 jurisdiction cannot be exercised to compel third parties, who are not privy to, or bound by, the arbitration agreement, to submit themselves to arbitral proceedings. This violates the principle of party autonomy and the consensual nature of arbitral proceedings.

(iv) The arbitrability of the dispute forming subject matter of the suit, and the arbitrability of the claim, are different. A claim may be non-arbitrable because of the scope of the arbitration agreement, not because the subject matter of the claim is essentially not amenable to arbitration. On the other hand, the subject matter of the suit is normally non-arbitrable only if it is not amenable to resolution by arbitration, in law.

(v) Non-arbitrability may be said to exist

(a) where the cause of action, and the subject matter of the dispute, related to actions *in rem*, which do not pertain to subordinate rights *in personam* arising from rights *in rem*,

(b) where the cause of action and subject matter of the dispute affects third party rights, or has *erga omnes* effect, i.e. affects rights owed to all,

(c) where the cause of action and subject matter of the dispute require centralised adjudication, and for which mutual adjudication would not be appropriate or enforceable,

(d) where the cause of action and subject matter of the dispute relate to inalienable sovereign and public interest functions of the State, not amenable to adjudication by the arbitral process, or

(e) where the subject matter of the dispute is non-arbitrable by mandatory statutory fiat.

These principles are, however, not watertight, and have to be applied with care and caution.

(vi) Specific instances of non-arbitrable disputes are

(a) insolvency disputes,

(b) internal company disputes which have to be addressed by a centralised forum, which would be more efficient and have complete jurisdiction to dispose of the entire matter, being actions *in rem*,

(c) grant and issue of patents and registration of trademarks being exclusive matters falling within the sovereign or government function, having *erga omnes* effect, conferring monopoly rights,

(d) criminal cases, as they relate to sovereign functions of the State,

(e) violations of criminal law, as they are offences against the State and not just against the victim,

(f) matrimonial disputes relating to dissolution of marriage, restitution of conjugal rights, etc., which have no commercial or economic value and have *erga omnes* effect, and

- (g) matters relating to probate or testamentary disposition, which are actions *in rem*, resulting in a declaration to the world at large.
- (vii) Landlord-tenant disputes to be decided as per the Transfer of Property Act, 1882, are arbitrable, as they
- (a) pertain to subordinate rights *in personam* arising from rights *in rem*,
 - (b) do not normally affect third party rights, or have *erga omnes* effect, requiring centralised adjudication,
 - (c) do not relate to inalienable sovereign functions of the State,
 - (d) are not excepted from resolution by arbitration, by the provisions of the Transfer of Property Act, and
 - (e) result in a resolution which can be executed and enforced like a decree of a civil court.

(viii) The scope of examination by the Court exercising jurisdiction under Section 8 or under Section 11, is *prima facie* in nature. The Court is not to enter into the merits of the case between the parties. It is only to examine whether the dispute is *prima facie* arbitrable under a valid arbitration agreement. This *prima facie* examination is intended to weed out manifestly and *ex facie* non-existent or invalid arbitration agreements or non-arbitrable disputes, thereby cutting the deadwood and trimming off the side branches, in cases where the litigation cannot be permitted to proceed. The proceedings are preliminary and

summary in nature and should not result in a mini-trial. *Unless there is a clear case of non-existence of a valid arbitration agreement, or of the dispute being ex facie non-arbitrable, tested on the above parameters, the court should leave these aspects to be decided by a competently constituted arbitral tribunal.* Relegation to arbitration should be regarded as a rule, and resolution by the civil court, where a valid arbitration agreement exists and is sought to be invoked by one of the parties, as an exception. The expression “chalk and cheese situation”, as used by this Court has, in this background, been approved by the Supreme Court. “When in doubt,” says Ramana, J., in his concurring opinion, “refer”. (Having said that, the “doubt”, in my view, has to be real and substantial, and not merely an escape route to avoid examining the issue in perspective.)

40. Criterion (viii) is, in my view, of pre-eminent significance. While examining the aspect of arbitrability of the dispute, or the existence of a valid arbitration agreement binding the parties, in exercise of its jurisdiction under Section 8, the Court has always to remain alive to the fact that it is exercising the very same jurisdiction which the Arbitral Tribunal is empowered to exercise. Court should not, therefore, exercise jurisdiction, under Section 8 or Section 11, qua these aspects, in such a manner, as would completely erode or efface the authority of Arbitral Tribunal to rule thereon. It is only, therefore, where the Court finds the case to be “chalk and cheese”, and where referring the matter to the arbitral process would be opposed to public interest or public policy, and a futility *ex facie*, that the Court should

nip the request for referring the dispute to arbitration in the bud. Else, the authority of the Arbitral Tribunal to adjudicate on these aspects is required to be respected, given the *raison d'etre*, and fundamental philosophy, of the 1996 Act.

41. In the present case, the existence of a valid arbitration agreement, between the parties, is not in dispute, to the extent that Clauses 19.5 of the FSA and 5.6 of the TMNA provide for settlement of disputes, between or among the Family Groups, relating to the FSA and TMNA, by mediation, failing which by arbitration, in accordance with the 1996 Act. I am only required to examine, therefore, whether Mr. Sudhir Chandra has been able to make out a case which can convincingly discredit the request, by Mr. Sibal, to refer to the present dispute to arbitration, in accordance with the said covenants.

42. The submissions of Mr. Sudhir Chandra are, essentially, that

- (i) the defendants have sought to challenge the scope of the registrations held by the plaintiffs, in respect of the “Hero” and “Hero Electric” trademarks, by contending that they do not extend to electric bicycles/e-cycles,
- (ii) in respect thereof, what the defendant has essentially contended was that the expression “bicycles”, in respect of which the right to use the “Hero” and “Hero Electric” trademarks was conferred on the F-4 Family Group (the defendants) encompassed, in its sweep, electric cycles/e-cycles,

- (iii) as such, the challenge by the defendants required, for its adjudication, determination of the validity and sweep of the registrations held by the plaintiffs,
- (iv) determination of this issue did not require the Court to refer to the FSA or TMNA, as the plaintiffs were relying on Section 7 of the Trade Marks Act, Rule 20 of the Trade Marks Rules, and the fact that Hero Exports was the registered proprietor of the trademark “Hero” for “electric bikes”, which expression would include electric bicycles,
- (v) the decision of this Court on this controversy would, moreover, operate *in rem*, as it would confer an absolute right on the plaintiffs against the whole world, if decided in favour of the plaintiffs, and could not be regarded as adjudicating subordinate rights emanating out of rights *in rem*,
- (vi) the decision of this Court would declare the scope of the trademark held by the plaintiffs, *vis-à-vis* the defendants, and the description of the goods covered thereby, and would operate as a decision *in rem*, not only against the defendants, but also against all third parties who may choose to infringe the said trademarks, and
- (vii) the case of the plaintiffs being, therefore, purely one of infringement, by the defendants, of the trademarks held by the plaintiffs, it was not amenable to resolution by the arbitral process.

43. I am unable to agree with Mr. Sudhir Chandra. As has been correctly pointed out by Mr. Sibal, the dispute, as raised by Mr. Sudhir

Chandra's clients, is almost entirely centred around the FSA and TMNA. Though the prayer clause, in the suit, superficially read, seeks remedies against alleged infringement by the defendants, the infringement is alleged, not on the ground that the defendants are using deceptively similar trademarks, but on the ground that the right to use the trademarks, on electric cycles was conferred, by the FSA and TMNA, not on the F-4 group, but on the F-1 group. The reliance, by Mr. Sibal, on paras 19 to 25 of the plaint, is also well taken. The precise case set up by the plaintiff, in the said paras, is that the right to use the trademark "Hero" and its variants, which, prior to the execution of the FSA and the TMNA, vested in Hero Cycles, was transferred, by the FSA and the TMNA, to the F-1 group, insofar as electric cycles were concerned. In using the "Hero" trademark, on electric cycles and e-cycles, therefore, it was alleged that the F-4 group was infracting the covenants of the FSA and TMNA. Even if, in the process, the plaintiffs were to rely on any of the provisions of the Trade Marks Act, the essential infraction, as alleged to have been committed by the defendants, was not of the provisions of the Trade Marks Act, but of the provisions of the FSA and TMNA. As against this, the defendants rely on Articles 17.1 and 17.2 of the FSA and Article 3.7 of the TMNA, to dispute the claim of the plaintiffs. I am in agreement with Mr. Sibal that the dispute, as thus emerged between the plaintiffs and the defendants, required a holistic appreciation of the FSA and the TMNA, their various covenants, and the interplay thereof, in order to adjudicate on the rights conferred on the various family groups. Any effective adjudication of the disputes, without reference to the FSA and the TMNA would, in my view, be impossible.

44. All disputes arising “out of” or “in connection with” the FSA being amenable to arbitration under Clause 19.5 thereof, and all disputes arising “out of” or “in connection with” the TMNA being amenable to arbitration under Clause 5.6 thereof, the disputes between the parties before me are, *prima facie*, covered by these covenants. They are, therefore, *ex facie* arbitrable in nature, seen in the light of the provisions of the FSA and TMNA.

45. Mr. Sudhir Chandra seeks to contend, however, that, being in the nature of a determination of intellectual property rights, which would operate *in rem*, an arbitrator, acting in accordance with the provisions of the 1996 Act, could not decide the dispute. He submits, in this context, that rights relating to trademarks and patents are among those which had specifically been held, by the Supreme Court, to be incapable of resolution by arbitration by their very nature, and has invited my attention to the observations, in that regard, as contained in ***Booz Allen***² and ***Ayyasamy***³.

46. ***Booz Allen***² and ***Ayyasamy***³ have both been considered, comprehensively, in ***Vidya Drolia***²⁶, which includes, among the categories of disputes which cannot be arbitrated upon, “grant and issue of patents and registration of trade marks”, as “they are exclusive matters falling within the sovereign or government functions”, having “*erga omnes* effect”, resulting in conferment of “monopoly rights”. The controversy, in the present case, does not relate to grant, or registration, of trademarks. The trademarks already stood granted, and registered, prior to the FSA and TMNA. *The dispute is regarding the*

Family Group to which the rights to use the said trademarks, in connection with electric cycles and e-cycles has been assigned, by the FSA and TMNA. This assignment is by contractual, not statutory, fiat. It does not involve any exercise of sovereign functions (unless, of course, the patriarchs of the four Family Groups are, in a limited sense, to be regarded as “sovereigns”). In any event, no inalienable exercise of sovereign governmental functions can be said to be involved, in the assignment, to the various Family Groups, of their individual rights to use the existing trademarks, in respect of one, or the other, categories of goods. The dispute does not, therefore, fall under any of the categories of disputes excepted, by the Supreme Court, from the arbitral umbrella.

47. Nor am I able to accept Mr. Sudhir Chandra’s arguments that the dispute is in the nature of an action *in rem*. Mr Sibal has, in this context, sought to distinguish between actions *in rem* and rights *in rem*. Though this distinction does, to an extent, manifest the fallacy in the submission of Mr Sudhir Chandra, I do not deem it necessary to enter, for the purpose, into that intricate jurisprudential thicket. (Avoidance of the temptation to enter into such thickets is, indeed, one of the cautions that *Vidya Drolia*²⁶ administers.) The right that the plaintiffs seek to assert, in the plaint, is clearly against the F-4 group, and the F-4 group alone, and not against the whole world. More precisely put, the plaintiffs are not seeking a declaration, of their right to use a particular trademark, against any potential infringer, anywhere in the world, as is the case with “normal” infringement suits. The dispute is clearly inter-se amongst two Family Groups, pillowed on the rights emanating from the

FSA and the TMNA, and essentially alleges infraction of the terms of the FSA and TMNA, not of the provisions of the Trade Marks Act. The precise case of the plaintiff is that the defendants have, in using the “Hero” trademark in respect of electric cycles and e-cycles, infringed the covenants of the FSA and TMNA. The infraction, consequently, of the provisions of the Trade Marks Act, even if asserted, is only incidental, arising from the fact that the right to use a particular trademark is statutorily conferred by the said Act. Equally, therefore, even if it were to be assumed that the declaration, by the adjudicator, of the Family Group which would be entitled to use the “Hero” or “Hero Electric” trademark on electric cycles, or e-cycles, would result in that Family Group being the repository of the said trademark, qua the said goods, against the whole world, that by itself would not convert the dispute, as raised in the plaint, as one *in rem*, or lend it *erga omnes* effect. To reiterate, in this context, the right asserted by the plaintiffs is not a right that emanates from the Trade Marks Act, but a right that emanates from the FSA and the TMNA, and *is not asserted* vis-à-vis the whole world, but *is asserted* specifically vis-à-vis the F-4 Family Group. The argument that the dispute is *in rem* and is, therefore, not amenable to the arbitral process, therefore, fails to impress.

48. Mr. Sudhir Chandra also relied on the decisions of this Court in *Kush Dairy*⁷, *Raj & Associates*⁸ and *Ministry of Sound International*⁹, to contend that, having itself filed a civil suit, against the F-1 family group in Patna, relating to the use of the mark “Hero”, the F-4 family group, represented by Mr. Sibal, was estopped from opposing the suit of the plaintiffs. As against this, Mr. Sibal submits that the earlier

arbitral proceedings between the plaintiffs and the defendants, which resulted in the award dated 18th December, 2018, estopped the plaintiff from contending that the disputes were not arbitrable. Interestingly, learned Senior Counsel, on either side, presses into service, against the contention advanced by each other, the principle that there can be no estoppel against the law. In any event, the various contentions and assertions, by learned Senior Counsel, in respect of these pleas of estoppel, predicated on earlier disputes between them are, in my view, clearly amenable to resolution by the arbitral process. They cannot be said to constitute grounds which clearly make out a case for rejecting the application, under Section 8, preferred by the defendants. I do not deem it necessary to venture into this arena, which would more appropriately lend itself to exploration by the arbitrator. At the very least, however, the fact that arbitral proceedings, relating to inter-se rights emanating from the FSA and the TMNA, having a bearing on usage of the trademarks, were initiated, and continued, culminating in the passing of the award dated 18th December, 2018, does indicate that the defendants have an arguable defence, to the plaintiff's plea of estoppel. Having said that, I reiterate that the extent to which the proceedings in the Patna suit, or the earlier arbitral proceedings between the parties, resulting in the award dated 18th December, 2018, and its subsequent challenge before this Court, affect the arbitrability of the present dispute, is left open to the decision by the learned arbitrator, who would proceed unencumbered by any observation contained hereinabove.

49. Mr. Sibal also answered the submission, of Mr. Sudhir Chandra, that HEVPL and Lectro were not parties to the FSA of TMNA, by pointing out that the covenants of the FSA made its terms applicable in respect of all family group entities, including those to be incorporated in future. He has invited my attention to various covenants of the FSA, which stand reproduced earlier in this judgement. He has also pointed out that HEVPL was claiming its rights through Hero Exports and Lectro was asserting its rights through Hero Electric, in their capacity as licensees, and has, in this context, relied on Section 8 of the 1996 Act, which applies to persons claiming “through or under” parties to the arbitration agreement. A reading of the covenants of the FSA, on which Mr. Sibal has placed reliance, and an appreciation of the other contentions advanced by him, indicate that, though HEVPL and Lectro were not parties to the arbitration agreement *per se*, as they were not in existence at the time of execution of the FSA and TMNA, they remain part of the F-1 and F-4 Family Groups respectively, and the rights asserted by them, against each other, is dependent on the rights conferred on the said Family Groups by the FSA and TMNA. It is apparently for this reason that the covenants of the FSA and TMNA confer rights, and impose liabilities, not only *in praesenti*, but also *in futuro*. No clear case for excluding the plaintiff and the defendants from the sweep and ambit of the provisions for arbitration, as contained in the FSA and TMNA can, therefore, be said to have been made out by Mr. Sudhir Chandra.

50. *Vidya Drolia*²⁶, as well as the earlier decisions cited therein, expressly proscribe the Section 8 court from conducting more than a

prima facie examination and evaluation. Where a valid arbitration agreement exists, the decision also underscores the position that, ordinarily, the disputes between the parties ought to be referred to arbitration, and it is only where a clear “chalk and cheese” case of non-arbitrability is found to exist, that the court would refrain from permitting invocation of the arbitration clause.

51. No such “chalk and cheese” situation has been made out, by the arguments of Mr. Sudhir Chandra, as would rule out the applicability, to the present dispute, of the arbitration agreements, as contained in the FSA and TMNA. The validity of the arbitration agreement, as contained in Clause 19.5 of the FSA and Clause 5.6 of the TMNA, is not in dispute. All other aspects, as argued before me, would more appropriately lend themselves to adjudication by the arbitral process.

52. I am not inclined to accede to the residual submission, of Mr Sudhir Chandra, to convert the present suit into an application under Section 9 of the 1996 Act. No interim order has, till date, been passed by this Court in the present proceedings. In exceptional cases, no doubt, the Court may convert the suit into a petition under Section 9, but no such situation, to my mind, exists in the present case. It would be more appropriate if the petitioner were to present the present plaint before the learned Arbitrator and seek any interim or interlocutory relief, as it may choose, under Section 17 of the 1996 Act.

Conclusion

53. As a result, the prayer for referring the disputes, in the suit, to arbitration, is allowed. Resultantly, the dispute in CS (Comm) 98/2020 is referred to arbitration. The parties would be at liberty to proceed to appoint the arbitrator/arbitrators, in accordance with the covenants of the FSA and TMNA and/or approach this Court in that regard.

54. CS (Comm) 98/2020 does not, therefore, survive for adjudication by this Court. Needless to say, the right of the plaintiff, to seek any interlocutory or interim protection, in accordance with Section 17 of the 1996 Act, or otherwise available in law, would remain reserved.

55. CS (Comm) 98/2020, and IA 3381/2020, are disposed of in the above terms, with no orders as to costs.

C. HARI SHANKAR, J.

MARCH 2, 2021