IN THE HIGH COURT OF DELHI AT NEW DELHI

Date of Decision: 11th November, 2021

O.M.P.(I) (COMM.) 356/2021, I.A. 14374/2021, I.A. 14375/2021, +I.A. 14376/2021

CHEM ACADEMY PVT. LTD.

..... Petitioner

Through: Mr. Manoranjan and Ms. Sambhavi,

Advocates.

versus

SUMIT MEHTA

..... Respondent

Through:

Mr. Lakshay Joshi, Advocate.

O.M.P.(I) (COMM.) 357/2021, I.A. 14377/2021, I.A. 14378/2021, +I.A. 14379/2021

CHEM ACADEMY PVT. LTD.

..... Petitioner

Through:

Mr. Manoranjan and Ms. Sambhavi,

Advocates.

versus

ANOOP LAMBA

..... Respondent

Through: Mr. Lakshay Joshi, Advocate.

CORAM:

HON'BLE MR. JUSTICE SANJEEV NARULA

JUDGMENT

[VIA HYBRID MODE]

SANJEEV NARULA, J. (Oral):

The background facts and reliefs sought in both the Petitions are 1.

similar, and therefore, the same are being disposed of by way of a common order.

- 2. Briefly stated, the facts of the case are as follows: -
- The Petitioner viz. Chem Academy Pvt. Ltd. [hereinafter "Chem Academy"] is engaged in the business of commercial coaching and training services. The Respondents viz. Mr. Sumit Mehta in O.M.P.(I) (COMM) 356/2021 and Mr. Anoop Lamba in O.M.P.(I) (COMM) 357/2021 [hereinafter collectively referred to as "the Employees"] joined Chem Academy as "Trainee Faculty" and were subsequently, confirmed on 31st December, 2020 vide separate "FACULTY" AGREEMENT' both executed on 31st December, 2020 [hereinafter collectively referred to as "the Agreements"], whereunder the terms and conditions of employment were laid down.¹
- (b) As per the Agreements, *inter-alia*, the Employees were designated as 'Professors'. Their appointment was initially for a period of three years from the date of signing the Agreements *viz.* 31st December, 2020 till 30th December, 2023. It was provided that the Agreements would not expire with efflux of time on expiry of three years, unless Chem Academy did not wish to extend the employment tenure.²
- (c) Clause 1.4 stipulated that in case the Employees were desirous of leaving Chem Academy prior to completion of the agreed period of three years, they were bound to give a notice in writing, providing a three months' prior notice [hereinafter "notice period"]. The rationale behind the above clause was that the termination of the Employees

¹ The terms and conditions of the employment *qua* both the Employees/ Respondents are identical.

² As per Clause 1.3 of the Agreement.

would coincide with the academic session ending on 31st December, 20XX. Nevertheless, even during the notice period, Employees were duty bound to perform their work with utmost sincerity.

(d) As professors, they were required to take classroom, live and recorded lectures, fulfil other assignments relating to creation of booklet contents, study material, YouTube classes, etc. Reliance is placed upon Clauses 2.14, 4.3, 5 of the Agreements extracted as under³: -

"2.14 The "Faculty" agrees not to interact with any media, press or with any social media platform, discussion sites or websites without the prior written consent of "Company". At no time shall the "Faculty" make any comments or discuss with any third-party any topic or information in relation to "Company" without first obtaining a written permission from "Company".

xx .. xx .. xx

"4.3 All work Product / Services are developed as works for hire. The "Faculty" acknowledge that the intellectual property rights in the work product or any other work in the course of the employment shall be the proprietary property of "Company", and all rights, title and interests therein shall vest in "Company"."

xx .. xx .. xx

- "5.2 At all times during the employment and thereafter, for the longest period permitted by law, the "Faculty" agree to and shall hold Confidential Information in strict confidence in accordance with the provisions hereof and shall protect all Confidential Information with the same level of care the "Faculty" applied to his own confidential information, and in any event no less than reasonable care.
- 5.3 The "Faculty" shall not disclose the Confidential Information to any third person without the "Company"'s prior written consent. Nor will The "Faculty" make use of any Confidential Information for his own purpose or the benefit of any other than the "Company".

xx .. xx .. xx

³ The aforesaid clauses extracted above from the Agreements are identical.

5.5 The "Faculty" must act at all times in the best interests of the "Company" and avoid a situation where there is a potential for his interest conflicting with those of the "Company".

xx .. xx .. xx

- 5.12 Payment / Fee / Salary related information are highly confidential. Management ("Company") does not allow to disclose this information with any one (Internal or External)."
- (e) Considerable reliance is placed upon Clause 6.2 (b) of the Agreements to contend that during the employment period *viz*. thirty-six (36) months, Employees agreed not to be associated, in any capacity, joint venture, promoter, founder, partner etc., with any entity which competes with the business of the Chem Academy without obtaining prior express written consent. Clause 6.2 of the Agreements is reproduced as under: -
 - "6.2. During the Employment Period or "Faculty" Agreement period of Thirty-Six (36) months. The "Faculty" shall not:
 - (a) Deal, directly or indirectly, with any form of research, development, production, sale or publicity related to or similar to the business of the "Company";
 - (b) <u>Be associated with whether in a capacity of employment, joint venture, promoter, founder, partner, shareholder, collaborator or as a consultant, with any entity which competes with the whole or any pat of the business of the "Company" without obtained the express prior written consent of the "Company";</u>
 - (c) Attempt to directly to indirectly, whether through partnership or as a shareholder, joint venture partner, collaborator, consultant or agent or in any other manner whatsoever, whether for profit or otherwise solicit the business of any client/customer of the "Company";
 - (d) Persuade any person, firm or entity which is a client/customer of the "Company" to cease doing business or to reduce the amount of business which any such client/customer has customarily done or might propose doing with the client/customer was originally established in whole or part through "Faculty"'s efforts;
 - (e) Employ or attempt to employ or solicit or assist anyone else to employ any "Faculty" of the "Company" or any key manager or consultant who is in engaged with the "Company" or its affiliate or group companies."

[Emphasis supplied]

- resignation letters dated 17th May, 2021, followed by 2nd resignation Letter dated 18th June, 2021 [issued by Mr. Anoop Lamba] and 19th June, 2021 [issued by Mr. Sumit Mehta]. Subsequently, they joined another coaching institute operating under the name of 'Sorting Hat Technologies Pvt. Ltd./ Unacademy' [hereinafter "Unacademy"].
- (g) In the above circumstances, the present Petitions under Section 9 of the Arbitration and Conciliation Act, 1996 [hereinafter "the Act"] have been filed seeking interim measures pending constitution of the Arbitral Tribunal. The reliefs sought in both the Petitions are identical, thus for brevity and convenience, prayer in O.M.P.(I)(COMM) 356/2021 is reproduced hereinbelow: -
 - "a. Pass an ad interim ex parte injunction order, upto the time of finalization of the Arbitration proceedings to be initiated by the applicant/petitioner company on the basis of agreement Dt 31.12.2020 executed between the patties to this petition, in favour of the applicant/petitioner Company and against the respondent, restraining the respondent from joining, teaching, uploading educational videos, preparation of study material, Test Series, YouTube classes or any other related activities for any other Company/institute engaged in similar online Coaching classes/business as that of the applicant/petitioner Company, during the subsistence of the agreement executed between the parties to this application, i.e. between the period 31.12.2020 till 30.12.2023.
 - b. Pass a mandatory injunction directing the respondent to rejoin and continue the coaching classes and other duties so assigned by the applicant/petitioner Company, as per the terms and conditions so agreed in the agreement Dt. 31.12.2020 during the subsistence of the agreement between the period 31.12.2020 till 30.12.2023, with cost of the application in favour of the applicant/petitioner's Company and against the respondent."
- 3. Mr. Manorajan, at the outset, states that he is not pressing prayer 'b.'

noted above and makes the following submissions qua the remaining prayer:

- 3.1. The Employees had agreed and accepted the terms, conditions and restrictions contained in the Agreements which are reasonable in nature and legitimate in order to protect the business interest as well as goodwill of Chem Academy. The Agreements were voluntarily executed by both the Employees with free will and after having understood the provisions of the Agreements. The Employees have acted contrary to the aforenoted clauses, in complete violation, and with a *mala fide* intent to cause deliberate loss of business to Chem Academy. The Employees have resigned from Chem Academy, without serving the notice period in writing, at the behest of their competitors *viz.* Unacademy, who is also engaged in coaching business;
- 3.2. The exit/ resignation was planned by the Employees to cause damage to the interests of and to lure its students enrolled with Chem Academy. The Employees started distributing their contact details to students in online classes, so as to influence their choice of academy. They have acted as a proxy for Chem Academy's competitor for propagating and enhancing its business interests.; The employees have breached the trust bestowed on them and have acted contrary to the agreed terms, with *mala fide* intent;
- 3.3. The Employees, in October 2020 and subsequently, many times thereafter, induced Chem Academy's studio manager Mr. Himanshu by offering him money, in return for him being asked to provide all the non-encrypted recorded lectures. This was done with an intention to cause loss to the business of Chem Academy;
- 3.4. The resignation letters were issued as a bargaining tool to force Chem

Academy to enhance the salary, despite there being no contractual obligation. The Employees renegotiated their salaries and perks, and despite that, they tendered their second resignation Letters [dated 18th June, 2021 issued by Mr. Anoop Lamba and 19th June, 2021 issued by Mr. Sumit Mehta]. However, as it later turned out, this was just a ploy to exit from Chem Academy. The subsequent actions manifest that the Employees jointly and independently conspired at the behest of Unacademy. They even uploaded videos containing false, baseless, and defamatory allegations against Chem Academy;

- 3.5. The Employees were members of the core group of professors who had been assigned the duty of formulating teaching materials and questionnaires for the students which are developed after extensive research and investment of resources by Chem Academy. Now, it transpires that Employees took away with them the said study material(s) in breach of confidentiality clause. The said confidential teaching material(s) are now with the competitor, as is being reflected on the videos being uploaded by the Employees online;
- 3.6. In support of the aforenoted submissions, the counsel for Chem Academy has relied upon the following judgments: Superintendence Company of India v. Krishan Murgai⁴, Niranjan Shankar Golikari v. The Century Spinning and Mfg. Co. Ltd.⁵ and Paramount Coaching Centre v. Rakesh Ranjan Jha⁶ to argue that the negative covenants contained in the Agreements which restrain the Employees from taking

⁴ MANU/SC/0457/1980.

⁵ MANU/SC/0346/1967.

⁶ MANU/DE/2476/2017.

employment with the competitor(s) of Chem Academy are valid and enforceable. Chem Academy is entitled to restrain the Employees from the joining its competitor(s) during the term of the agreement period *viz.* 36 months.

- 4. Mr. Lakshay Joshi, counsel for the Employees, who has appeared on noticing the matter in the cause list, contends the following: -
- 4.1. The Petitions are misconceived and contrary to the law laid down by the Supreme Court and this Court;
- 4.2. The Employees were not paid their salary between the period June-November 2020 and were constrained from resigning from Chem Academy; they have now joined Unacademy, and if the relief, as sought by Chem Academy is granted, they would be consigned to idleness, which would be unconscionable and cannot be permitted by this Court;
- 4.3. In support of his submissions, he relies upon the judgment of the Division Bench of this Court in *Arvind Medicare Pvt. Ltd. v. Neeru Mehra*⁷ wherein the Appellate Court has also considered the judgment of the Supreme Court in *Niranjan Shankar* (*supra*) and declined to grant injunction is similar facts and circumstances.
- 5. In rejoinder, Mr. Manoranjan, counsel for Chem Academy refutes the allegations made by the counsel for Employees. He argues that the Employees, without serving the notice period, as contemplated under the Agreements, resigned from their employment. He submits that there are no

_

⁷ MANU/DE/0941/2021. Reliance is placed on para 27.

outstanding dues to be paid to the Employees, except for the period during which the lockdown was enforced by the Government of NCT of Delhi. For that period -60% payment has been made and 40% has been promised to be made, as and when the offline classes resume.

ANALYSIS

The Court has considered the contentions of the parties. In the opinion of the Court, the relief as sought for in the present Petitions cannot be granted. Although, Chem Academy has given up prayer 'b.', noted above [viz. mandatory injunction against the Employees to re-join and continue the coaching classes of the Chem Academy], it is nevertheless imperative to note that, the prayer is even otherwise misconceived. The Agreements stand terminated with Employees' resignation. The Agreements indeed provide for an exit clause whereby the Employees could quit by serving the notice period. This makes the Agreements unambiguously and inherently in its nature determinable – prior to the term of 36 months, thereby attracting the bar contained in Section 14(d) read with Section 41(e) of the Specific Relief Act, 1963 [hereinafter "Specific Relief Act"].8 Furthermore, the Agreements herein are contracts for personal service dependent on the personal qualifications, and ordinarily, the Court cannot, by way of a mandatory injunction direct specific performance of such a contract under Section 14(c) of the Specific Relief Act.⁹ The Employees cannot be compelled by the Court

⁸ See: Arvind Medicare (supra), Independent News Service Pvt. Ltd. v. Sucherita Kukreti, MANU/DE/0286/2019, and Percept D'Mark (India) Pvt. Ltd. v. Zaheer Khan and Ors., MANU/SC/1412/2006.

⁹ See: Arvinder Singh and Ors. v. Lal Pathlabs Pvt. Ltd. and Ors., MANU/DE/0936/2015 and Modicare Limited v. Gautam Bali and Ors., MANU/DE/3270/2019

against their will to perform a contract which is dependent on the personal qualifications under any legal principle applicable to employment contracts. No special circumstances exist to make an exception. The remedy, if any, for Chem Academy is to sue for damages. To underscore, the scope of the present Petitions is only limited to securing interim measure(s) under Section 9 of the Act and the reliefs sought are beyond the scope of the Petitions.

7. This brings us to question that if the Employees cannot be compelled to serve Chem Academy, whether prayer 'a.' - premised on the negative covenant [Clause 6.2 of the Agreements] – which is all encompassing and widely termed, can be granted or not. The Employees are sought to be injuncted from joining, teaching, or being engaged in any related activities with which Chem Academy is engaged, during the employment term of three years. Considering the fact that the Employees are in the profession of teaching – the sweep and span of the injunction prayed for would render them incapable of employment avenues in their field of expertise viz. teaching/ in the same business as conducted by their former employer i.e., Chem Academy. This would and practically render them idle and prevent them to earn livelihood, which must not be allowed, being contrary to Section 27 of the Indian Contract Act, 1872 [hereinafter "Contract Act"]. Chem Academy is not insisting for prayer 'b.', thus granting prayer 'a.' would, render the Employees without employment, as they would not be able to work with their current Employer and would then be compelled to go back to Chem Academy. Side-lining professional(s) is likely to inflict their future prospects and would have adverse impact on their mental wellbeing.

- 8. That apart, Clause 6.2 of the Agreements, extracted in the preceding paragraphs, insofar as it restricts the Employees from being in employment with any entity which competes with the whole or any part of the business, is prima facie void under Section 27 of the Contract Act. Mr. Manoranjan strenuously traverses that jurisprudence on this subject has recognised the right of the Employer to seek injunction on the basis of negative covenant during the subsistence of the contract. He argues that considerations against restrictive covenants are different in cases where restriction(s) are to apply post-termination of the contract, than those in cases where they operate during the term of the contract. The Employees must be restrained from joining the competitor for the balance period of 36 months, notwithstanding the fact that they have tendered their resignation. He emphasises that the Employees have left on their own without serving the notice period, and thus, they are bound by the negative covenant. Although prayer 'b.' has been given up, but he argues that Employees should join back and fulfil their contractual obligations. Mr. Manoranjan submits that the restriction under Clause 6.2 is valid and precise proposition advanced by him has been accepted by the Supreme Court as well as this Court. He places considerable reliance upon the judgments of the Supreme Court in Niranjan Shankar (supra) and Superintendence Company (supra).
- 9. The Court has considered the afore-noted decisions. In *Niranjan Shankar* (*supra*) certain foreign companies (named in the judgment) agreed to transfer their technical know-how to Respondent-Company [*viz.* "Century Spinning"], to be used exclusively for Century Spinning's tyre cord yarn plant. The Petitioner [viz. "Niranjan Shankar"] was appointed as a shift

supervisor with Century Spinning. During employment, Niranjan Shankar received training and acquired, during the training – knowledge of the technique, processes and the machinery evolved by the collaborators and Century Spinning, which were to be kept "secret"; Niranjan Shankar had even obtained secrecy undertakings from its employees. As per the agreement, Clause 17 therein operated in the event Niranjan Shankar left, abandoned, or resigned from his service during the term of and in breach of the agreement. Niranjan Shankar informed Century Spinning that he had resigned. Vide its response, Century Spinning directed Niranjan Shankar to resume work, stating that his resignation had not been accepted. In the meantime, Niranjan Shankar had obtained employment elsewhere. Century Spinning sought for and was granted an injunction from the District Court [confirmed by the High Court] restraining Niranjan Shankar until expiry of the employment term with Century Spinning. The Supreme Court noted concurrent findings against Niranjan Shankar of the Courts below regarding the apprehension of Century Spinning that information regarding divulging of special processes, etc. imparted to and acquired by Niranjan Shankar [during the period of training and thereafter] to be justified. It was observed that the information/ knowledge disclosed to him during this period was different from the general knowledge and experience that he might have gained while in the service of the Century Spinning and that disclosing the same to rival company required protection. Thus, the said judgment is clearly distinguishable on facts.

10. Although Mr. Manoranjan has vehemently argued that while Chem Academy has been adversely affected and the Employees formulated teaching

materials and questionnaires for its students after extensive research and investment of resources by Chem Academy, however, there is no material on record to sustain this contention. Even otherwise, this issue cannot be decided without affording parties an opportunity to lead evidence.

11. The decision of the Supreme Court in Superintendence Company (supra) also does advance the case of Chem Academy. In the said case, Superintendence Company after terminating the services of Krishan Murgai sought enforcement of negative covenant against him [not during the term of employment of Krishan Murgai] post-termination of employment. The clause under the agreement also applied post-service/ termination and read as – "that you will not be permitted to join any firm of our competitors or run a business of your own in similar lines directly and/or indirectly, for a period of two years at the place of your last posting after you leave the Company." (Emphasis supplied). When the matter reached Supreme Court [against an interlocutory order passed by the Division Bench of the High Court, reversing the limited injunction granted by the Single Judge] the Apex Court formulated two substantial questions - viz. "(a) whether a post-service restrictive covenant in restraint of trade as contained in Clause (10) of the service agreement between the parties is void under Section 27 of the Indian Contract Act? and (b) whether the said restrictive covenant, assuming it to be valid, is on its terms enforceable at the instance of the appellant company against the respondent?". Interestingly, the Bench by majority, dismissed the appeal not discussing/ or deciding the first question. Instead, the Court held that the expression "leave" in the clause of the service agreement extracted above, read along with all the other terms of employment, was intended by the parties

to refer only to a case where the employee had voluntarily left the services of the Superintendence Company. Since Krishan Murgai's services were terminated by Superintendence Company, the restrictive covenant contained in the service agreement was held to be inapplicable, and unenforceable against Krishan Murgai, at the instance of Superintendence Company. However, Justice A.P. Sen, while concurring with the majority view and arriving at the same conclusion, observed that without deciding the first question, the appeal could not be decided. He then delved into answering the same by extensively analysing several English case laws and emphatically held that the restriction(s) contained in aforesaid clause, referred above is evidently in restraint of trade, and therefore, is illegal and unenforceable under Section 27 of the Contract Act. This judgment, thus, does not render assistance to Chem Academy, but rather goes against him. Lastly, the judgment of this Court in *Paramount Coaching* (supra) also does not support Chem Academy. In the said case, the Court did not grant an injunction as prayed for, but only restrained the Defendant therein from imparting private tuition to any student the Plaintiff-Institute, clarifying that the order would not restrain the Defendant from teaching students which are not enrolled with the Plaintiff-Institute or other coaching institute.

12. Furthermore, the judgments of the Supreme Court relied upon by Chem Academy, in fact, have been considered in several other subsequent judgments dealing with enforcement of negative covenant(s) in employment contracts. Recently, the Division Bench of this Court in *Arvind Medicare* (*supra*) referred to *Niranjan Shankar* (*supra*) while considering the negative covenant which stipulated partial restriction [in terms of geographical

boundary] in light of amended provisions of the Specific Relief Act. In the said case, the Court also considered the contention regarding subsistence of beyond termination. The Division Bench rejected the said proposition to the following effect: -

"27. From reference by the counsel for the appellant/plaintiff, in his written arguments, to Niranjan Shankar Golikari supra, the argument of the appellant/plaintiff also appears to be, that since the respondent/defendant has not terminated the Service Contract, the Service Contract subsists and the respondent/defendant, during the subsistence thereof is not entitled to serve elsewhere. Though the counsel for the appellant/plaintiff during the hearing has not pressed the said argument, but we may state, that as per Clause 8 of the Service Contract, upon the respondent/defendant absenting without permission or authorization, for seven consecutive days, the respondent/defendant is deemed to have terminated the Service Contract, kicking in the provisions of Clause 10. It is the case of the appellant/plaintiff itself that the respondent/defendant stopped reporting for work/duty and which as aforesaid would amount to termination of the Service Contract by the respondent/defendant. It is thus not open to the appellant/plaintiff to contend that the Service Contract is subsisting."

[Emphasis supplied]

13. In the instant cases, the Agreements were terminated by Employees by submitting their resignations. Whether such resignations are valid or not is a subject matter which would have to be agitated before the Arbitral Tribunal, as and when constituted. Whether the Employees were justified in avoiding the notice period in light of the events narrated by them – *viz.* non-payment of salary, is again a factual dispute which would have to be examined in the ensuing arbitration. For now, Chem Academy cannot contend that employment contract is subsisting. This relief founded on negative covenant(s), relying on Clause 6.2, extracted above, cannot sustain once the Employees have terminated the Agreements/ contracts of employment.

- 14. Pertinently, in light of the specific clause [viz. Clause 1.4 of the Agreements], the Employees can resign from the employment by serving the notice period. This become germane as Chem Academy is insisting that even after the discharge of the contract, they are entitled to restrain the Employees from seeking employment with its competitor, for the full period the Employees were bound to serve, had they remined employed with them. This contention is misconceived. The restriction imposed under Clause 6.2 cannot be insisted for the entire employment period of 36 months under an assumption that the same is the fixed minimum term for the Employees to serve. The Employees could, in fact, at any time before the expiry of the term of the Agreements, leave Chem Academy by serving the notice. The said employment period was never considered to be sacrosanct by the parties. Therefore, Chem Academy cannot prima facie insist that Clause 6.2 would apply for the said term, notwithstanding the termination. The dispute can only be regarding non-serving of the notice period or for wrongful termination, with regard to the contractual stipulations, the remedy for which – is to seek compensation. Therefore, injunction is not warranted on this ground as well.
- 15. Furthermore, the Court does not have to necessarily enforce a negative covenant. It can be refused if it would indirectly compel the Employees either to idleness or to serve the employer. The relief based on a negative covenant has to be considered having regard to the overall facts and circumstances of the case. In fact, during the course of the arguments, this Court put a query to the counsel for Chem Academy that if the Employees are to be restrained in the manner as prayed in the Petitions, would Chem Academy be willing to pay the salary for the remaining term of the Agreements, notwithstanding the

fact that the Employees cannot be mandated to serve under Chem Academy's employment. To such a query, counsel for the Chem Academy responded that they are already under financial constraint, and besides, the Employees could look for employment elsewhere. Chem Academy's primary grievance is only with respect to its competitor *viz*. Unacademy – where the Employees are currently employed with. The Court does not find any merit in the response. At the end of the day, the case is apparently based on rivalry amongst two competitors.

- 16. Further, the prayer, based on the negative covenant(s) also cannot be granted since it would necessarily entail treating the Employees as continuing to be in employment of Chem Academy, which although is not being pressed, would be indirectly enforced.¹⁰
- 17. Lastly, it must also be observed that no material has been placed before this Court to prove the assertion that the Employees planned to exit/resign to cause damage to the interest of Chem Academy and to lure their students. This contention is thus, bereft of evidence or material foundation.
- 18. In view of the foregoing, the Court finds that Chem Academy does not have a *prima facie* case or the balance of convenience in its favour. The loss which Chem Academy claims to have suffered from, can always be compensated in money, and therefore, the Court also does not find the third ingredient for grant of injunction to be in favour of Chem Academy.

_

¹⁰ See: **Percept D'Mark** (supra).

19. Petitions are devoid of merit, and accordingly, the same along with pending applications are dismissed. No costs.

SANJEEV NARULA, J

NOVEMBER 11, 2021 *nd*

