

HIGH COURT OF GUJARAT (D.B.)**SHAILESH P MEHTA***Versus***RELIANCE PETROLEUM LIMITED****Date of Decision:** 11 September 2009**Citation:** 2009 LawSuit(Guj) 1179**Hon'ble Judges:** [R M Doshit](#), [Sharad D Dave](#)**Eq. Citations:** 2010 5 GLR 3883, 2010 154 CompCas 303**Case Type:** Original Jurn Appeal**Case No:** 50 of 2009**Subject:** Company**Acts Referred:**[Companies Act, 1956 Sec 392](#), [Sec 393](#), [Sec 391](#), [Sec 483](#), [Sec 391\(1\)](#), [Sec 226\(3\)](#),
[Sec 394](#)**Final Decision:** Appeal dismissed**Advocates:** [K I Shah](#), [Vishwas K Shah](#), [Hemang Shah](#), [S N Shelat](#), [Mihir Thakore](#), [S N Soparkar](#), [K S Nanavati](#), [Nandish Chudgar](#), [Maulik R Shah](#), [Nanavati Associates](#)**Cases Referred in (+): 11****R.M.Doshit, J.**

[1] These two Appeals preferred under Section 483 of the Companies Act, 1956 (hereinafter referred to as "the Act") arise from the judgment and order dated 22nd July, 2009 passed by the learned Company Judge in above Company Petition No.81/2009.

[2] The matter arises from a scheme of amalgamation of the respondent Reliance Petroleum Limited (hereinafter referred to as "the transferor company") and of Reliance Industries Limited (hereinafter referred to as "the transferee company").

[3] The transferor company has its registered office at Moti Khavdi in the State of Gujarat. A scheme of amalgamation of the transferor company and the transferee

company was proposed and was approved by the Board of Directors of the transferor company. Under the proposed scheme, it was resolved, inter alia, that against 16 shares in the transferor company, on amalgamation, a member would receive one share in the transferee company.

[4] The transferor company filed Company Application No.65/2009 before the learned Company Judge for direction under Section 391(1) of the Act to hold the meeting of the secured creditors (class-I), secured creditors (class-II), unsecured creditors and members of the company. By order dated 5th March, 2009 made by the learned Company Judge, the meetings of the equity shareholders, secured creditors (class-I), secured creditors (class-II) and unsecured creditors of the transferor company were directed to be held on 9th April, 2009 at the registered office of the transferor company under the Chairmanship of Mr. Justice S.D. Dave (retired). Accordingly, the meetings were held. The proposed scheme of amalgamation was approved by the secured creditors (class-I), secured creditors (class-II) and unsecured creditors unanimously. The proposed scheme of amalgamation was approved by the equity shareholders of the transferor company by a majority of more than 99% in value and in number.

[5] The transferor company filed the above Company Petition No.81/2009 along with the report of the Chairman of the meetings and other documents under Sections 391 to 394 of the Act for sanction of the Company Court to the proposed scheme of amalgamation.

[6] The said Company Petition was contested by the appellants herein. Both the appellants are the equity shareholders of the transferor company. The appellants objected to the sanction being granted to the proposed scheme of amalgamation mainly on the grounds that the transferor company had played fraud with its shareholders; the true and complete facts about the transferor company, its liabilities and its worth were not placed before the shareholders; before the Company Court, the transferor company did not produce latest audited accounts i.e. as on 31st March, 2009. The reports made by the concerned Chartered Accountants were not reliable. First, the said Chartered Accountants were not independent. They were connected with the business of the transferor company in one way or the other. Second, the said reports did not disclose the materials on which the reports were based. Such materials were not disclosed before the Court also. The reports and other particulars were placed before the Board of Directors at the time of the meeting leaving no room for contemplation or application of mind by the Directors. The proposed exchange ratio of 16:1 was not supported by any material. It is the grievance of the appellants that the shareholders of the transferor company have been duped and are offered far less shares in the transferee company than due. According to the appellant in O.J. Appeal No.52/2009 the transferee company is known for its manipulations. It had, in the past,

clandestinely sold a huge stock in the transferor company at a far higher price. Out of the proceeds of the said sale, a substantial amount was siphoned away. Once again, the transferee company has played trick with the shareholders of the transferor company. They are denied the fair value of their holding in the transferor company.

[7] Learned advocates Mr.Kirti Shah and Mr.Hemang Shah have taken us through the above referred objections filed by respective appellant, several affidavits filed before the learned Company Judge and the documents produced before the learned Company Judge. The learned advocates have taken particular exception in respect of the valuation report presented before the learned Company Judge to justify the proposed exchange ratio of the shares; perused by the learned Company Judge but not offered to the appellants for their comments. It is vehemently argued that the learned Company Judge has acted in violation of principles of natural justice in as much as the materials relied upon by the learned Company Judge were not furnished to the appellants. Thus, the appellants are deprived of a fair opportunity to respond to the petition filed by the transferor company.

[8] Mr.Hemang Shah has also relied upon several complaints against the proposed scheme of amalgamation received by the Registrar of Companies and the report made by the Registrar of Companies. He has submitted that the report made by the Registrar of Companies is perfunctory and is not accurate. Similarly, the fairness report (p.326) is also neither accurate nor it is made by an independent expert. He has also submitted that the transferor company deliberately did not produce the latest audited balance sheet on the records of the petition. Nor did it produce the valuation report in respect of the proposed exchange ratio of 16:1 of the shares of the transferor company and the transferee company. He has submitted that in absence of true and complete facts before the Court, the Court ought not to have accorded sanction to the proposed scheme of amalgamation. In support of their submissions, learned advocates have relied upon the judgments in the matters of [Hindustan Lever Employees Union v. Hindustan Lever Limited and others](#), 1995 AIR(SC) 470 of [Mihir H.Mafatlal V/s. Mafatlal Industries Limited](#), 1997 AIR(SC) 506 of Patiala Starch and Chemical Works Limited,1958 CompCas 111 of Carron Tea Co. Ltd.,1966 2 CrLJ 278 ; of [Bank of Baroda Limited V/s. Mahindra UGINE Steel Company Limited](#), 1976 46 CompCas 227 ; of [Bharat Synthetics Limited V/s. Bank of India and another](#), 2011 161 CompCas 534 (Bombay)]; of [KEC International Limited V/s. Kamani Employees Union and others](#), 2000 1 CompLJ 351 ; of [Larsen and Toubro Limited](#), 2004 121 CompCas 523 ; of [G.V. Films Limited](#), 2009 150 CompCas 415 and of this Court in the matter of Satyesh James Parasad and others V/s. Indian Petrochemical Corporation Limited [O.J.Appeal No.241/2007 decided on 28th December, 2007 (Coram: M.S.Shah and K.A.Puj, JJ.)].

[9] The Appeals are contested by the transferor company. Learned advocate Mr.Soparkar has appeared for the transferor company. Mr.Soparkar has submitted that the proposed scheme of amalgamation has been sanctioned by the Bombay High Court on application made by the transferee company (registered in the State of Maharashtra). The challenge to the said sanction in appeal has also failed. He has further pointed out that the proposed scheme of amalgamation has been approved unanimously by the secured and the unsecured creditors and by the shareholders by majority of more than 99% in value and in number. He has also submitted that the valuation report was not offered to the appellants for their comments as that may lead to speculation and manipulation of the stock market. Nevertheless, it was produced before the learned Company Judge. The learned Company Judge was satisfied about the fairness of the scheme particularly the proposed exchange ratio of the shares. He has submitted that at the time of filing of the petition the latest audited balance sheet available was as of 31st March, 2008. The unaudited balance sheet as of 31st March, 2009 was also placed on the record. Mr.Soparkar has further submitted that mere allegation that the proposed scheme is not fair is not enough. The appellants must be able to demonstrate before the Court how unfair the scheme is or what would be the just exchange ratio of the shares of the transferor company and the transferee company. He has submitted that the secured and the unsecured creditors of the transferor company and majority of its shareholders have, in their wisdom, approved the exchange ratio proposed in the scheme of amalgamation. The learned Company Judge, therefore, had no reason not to sanction the proposed scheme of amalgamation. Mr.Soparkar has also submitted that the objection raised by the appellants in respect of share exchange ratio is frivolous and unsustainable. He has submitted that these appellants also objected to the scheme of amalgamation in application for sanction made by the transferee company before the Bombay High Court. There also, the appellants objected to the very share exchange ratio. If the proposed share exchange ratio of 16:1 was not in the interest of the members of the transferee company, it surely cannot be prejudicial to the members of the transferor company. Besides, the appellants have not proposed a better or more beneficial share exchange ratio. Nor they have submitted valuation made by an independent expert. In the submission of Mr.Soparkar, the objection to the proposed share exchange ratio is a mere ipse dixit of the appellants. In support of his submissions, Mr.Soparkar has relied upon the judgments of the Hon ble Supreme Court in the matters of [Hindustan Lever Employees Union V/s. Hindustan Lever Limited and others](#), 1995 Supp1 SCC 499 and of [Miheer H.Mafatlal V/s. Mafatlal Industries Ltd.](#), 1997 1 SCC 579 .

[10] In the matter of Hindustan Lever Employees' Union , the court was called upon to accord sanction to a scheme of amalgamation under Section 394 of the Act. In the said case, the valuation of the assets of the transferor and the transferee company was

challenged on the ground that the person entrusted with and making such valuation was a director of the transferor company. Reliance was placed on Section 226(3) of the Act and was urged that the valuer was disqualified. The Court rejected the objection. The Court observed that the share exchange ratio proposed by the director was endorsed by two other eminent firms of Chartered Accountants and also by ICICI. The Court considered various factors for determining the final share exchange ratio such as the Stock Exchange Price before the commencement of negotiations or the announcement of the bid; the dividends presently paid; the relative growth prospects; the relative gearing of the shares; the values of the net assets of two companies; the voting strength in the merged enterprise and the past history of prices of the shares. It further observed, "...It will, therefore, appear that in case of amalgamation a combination of all or some of the methods of valuation may be adopted for the purpose of fixation of the exchange ratio of the shares of the two companies. It is to be noted that even in such a situation, the book value method has been described as 'more of a talking-point than a matter of substance'".

[11] In the matter of Miheer H. Mafatlal , the Hon ble Supreme Court had occasion to consider identical argument. The Court observed, "...The Company Court which is called upon to sanction such a scheme of compromise and arrangement has not merely to go by the ipse dixit of the majority of the shareholders or creditors or their respective classes who might have voted in favour of the scheme by requisite majority but the Court has to consider the pros and cons of the scheme with a view to finding out whether the scheme is fair, just and reasonable and is not contrary to any provisions of law and it does not violate any public policy. This is implicit in the very concept of compromise or arrangement which is required to receive the imprimatur of a court of law. No court of law would ever countenance any scheme of compromise or arrangement arrived at between the parties and which might be supported by the requisite majority if the Court finds that it is an unconscionable or an illegal scheme or is otherwise unfair or unjust to the class of shareholders or creditors for whom it is meant...However, court cannot have jurisdiction like an appellate authority to minutely scrutinise the scheme and to arrive at an independent conclusion whether the scheme should be permitted to go through or not....The Court cannot, therefore, undertake the exercise of scrutinising the scheme placed for its sanction with a view to finding out whether a better scheme could have been adopted by the parties." Similar questions arose in the matter of Satyesh James Parasad and others V/s. Indian Petrochemical Corporation Limited [O.J.Appeal No.241/2007 decided on 28th December, 2007 (Coram: M.S.Shah and K.A.Puj, JJ.)]. The learned Bench, in view of the objections raised against the scheme of amalgamation, undertook the exercise of weighing the offer for shares in the transferee company by examining the comparative market value of the shares of the transferor company and the transferee company. Having satisfied

itself that the proposed offer was just and fair, the Bench rejected the challenge to the scheme of amalgamation sanctioned by the learned Company Judge.

[12] The matter of Patiala Starch and Chemical Works Limited was an extreme case of non-compliance and undervaluation. The Hon ble Punjab and Haryana High Court noted, "...they cannot escape the conclusion that the price which is now being offered to the shareholders under the scheme is grossly unfair. This is especially so because no attempt has been made to get the assets of the company valued, preferably by an expert, who may bring his disinterested and independent judgment to bear on the point."

[13] Similar was the case in re. KEC International Limited . The Court refused the sanction to the scheme of amalgamation for the reason "...Only the manner in which the meeting was held and the manner in which the purported approval on behalf of the 19 corporate shareholders were obtained, were apparently bogus and concocted, holding of the very meeting on 17 November, 1997, and the approval thereon, cannot be sustained."

[14] In the matter of Carron Tea Co. Ltd. , the High Court of Calcutta had occasion to consider the scope of jurisdiction of the Company Court under Section 391 of the Act. In respect of the proposed exchange ratio of shares in two companies, the Hon ble Court was pleased to observe "...The ordinary law would suggest that the market price of the shares of the amalgamating company would be the proper basis for determining the ratio of exchange. So the quotation of the Stock Exchange would be a safe and proper basis for fixing the ratio, unless it is demonstrated that the Stock Exchange quotation is not reliable and does not represent the true value. The absence of a valuation on the basis of quotation on the Stock Exchange and the absence of any explanation why the quotations should be disregarded vitiates the auditor's report fixing the ratio." The Court took note that the auditors had not filed affidavit in support of the valuation made by them; the auditors relied upon the materials prepared and supplied by the Company and the oral instructions given by the officers of the Company. In the circumstances, the Court was of the opinion that the valuation made by the auditors was vitiated. For that, the Court was pleased to dismiss the application for sanction made under Sections 391 to 394 of the Act.

[15] In re. Bank of Baroda Limited , this Court considered the role of the court exercising powers under Sections 391 to 394 of the Act. The Court observed, "...it is not only an inquisitorial and supervisory role but also a pragmatic role which requires the forming of an independent and informed judgment as regards the feasibility or proper working of the scheme and making suitable modifications in the scheme and issuing appropriate directions with that end in view."

[16] In the matter of Bharat Synthetics Limited also, the Bombay High Court refused to grant sanction to a scheme of amalgamation. Where the Court found that, "...The petitioners have not placed before the court, its authenticated latest financial position, from the year 1991 onwards...To say the least, it is not in compliance with the abovequoted provision of the statute."

[17] In the matter of G.V.Films Limited , the Madras High Court refused to accord sanction to the scheme of arrangement. On facts, the Court found that the procedure envisaged by Section 391 of the Act was not complied with; the shareholders were spread all over the country but the notice was published within a small region. The Court observed, "...there had not been a proper publication and had not been a purposeful compliance of the provisions and when the shareholders present at the meeting were less than 10 per cent representing the share value of 23 per cent alone, I do not find that there had been a proper purposeful and meaningful compliance of the provisions of the Act."

[18] We are unable to countenance the objections raised by the appellants. Though it is alleged that a large scale fraud was perpetrated by the transferee company in sale of its holding in the transferor company, the allegation is not substantiated by facts and evidence. Besides, the transaction talked about was of the period prior to the proposal for scheme of amalgamation. It is not demonstrated how the alleged fraud has affected the interest of the creditors or shareholders of the transferor company. The appellants have also not demonstrated before us, how the proposed scheme of amalgamation is in anyway unjust or improper or is prejudicial to a class of members. In respect of the proposed exchange ratio of the shares also though it is argued vehemently that the exchange ratio proposed is unfair, it is not demonstrated before us that how the said ratio is unfair or what should be the fair proposal.

[19] In absence of a genuine or real objection, we would not interfere with the proposed scheme of amalgamation approved by the Board of Directors of the transferor company and the transferee company, approved by the secured and unsecured creditors and approved by the vast majority of the shareholders. Though it is vehemently argued that the transferor company did not produce the latest balance-sheet and the financial statement, it should be noted that alongwith the petition, the transferor company did produce the latest audited balance-sheet i.e. as of 31st March, 2008. The unaudited balance-sheet as on 31st March, 2009 had also been produced before the learned Company Judge. In our view, the allegation that the material informations have been kept back from the shareholders is not justiciable. It should be noted that the petition was heard within months of the date of the petition; unlike in the matter of Bharat Synthetics Limited where the petition was heard couple of years after the date of the filing. In the circumstances, the Court had held that the latest

balance-sheet available on the date of the hearing ought to have been produced. Further, before the learned Company Judge the appellants could have called upon the transferor company to produce the audited balance-sheet as on 31st March, 2009. That too, has not been done. Section 391 of the Act speaks of the satisfaction of the Company Court. In the present case, we find that the Company Court did call upon the transferor company to produce valuation report in support of the proposed exchange ratio of the shares. The learned Company Judge, having perused the valuation report, has noted that the valuation was made by the reputed chartered accountants by known and accepted methods. Neither the statute nor the law pronounced, requires adoption of any particular method. On the contrary, stock market price may not be a real indicator of the true value of a company. We are also unable to countenance that the concerned chartered accountants were not independent or disinterested. Merely because the concerned chartered accountants had in past worked for the transferor company, they do not come under the influence of the transferor company or its Board of Directors. The appellants have not even remotely suggested that the chartered accountants or experts were acting under the influence of or under the instruction of the transferor company or of any of its Directors or officers.

[20] It is undisputed that the procedure set-out in Section 391 of the Act has been followed; the proposed scheme has been approved by requisite majority. The learned Company Judge has recorded satisfaction that the valuation of properties of the transferor company and the transferee company was made by experts by known and accepted methods.

[21] For the aforesaid reasons, we dismiss these Appeals. Civil Applications stand disposed of. Interim stay stands vacated. Parties will bear their own cost.

[22] Learned advocate Mr.Hemang Shah has requested that the ad-interim stay granted pending these Appeals be continued for a period of three weeks. Request is rejected.

[23] Registry will maintain copy of this order in each Appeal.