
Delhi High Court Dismisses Challenge Against Arbitral Award For Failure To Raise Timely Objections On Quality Of Goods And Lack Of Evidence For Counterclaims

Authors: *Vasanth Rajasekaran and Harshvardhan Korada*

Introduction

In *Unison Hotels Pvt. Ltd. v. KNM Chemicals Pvt. Ltd.* [2025:DHC:1080], the Delhi High Court upheld an arbitral award granted in favour of the Respondent, an MSME supplier, and dismissed the challenge filed by the Petitioner under Section 34 of the Arbitration and Conciliation Act, 1996 ("**A&C Act**"). The High Court found no basis to interfere with the award rendered by the Delhi International Arbitration Centre ("**DIAC**"), which had granted the Respondent its claims for outstanding payments along with statutory interest under the Micro, Small and Medium Enterprises Development Act, 2006 ("**MSMED Act**"). In this article, we navigate through the facts of the case and the findings rendered by the High Court.

Brief Facts

Unison Hotels Pvt. Ltd. ("**Petitioner**") operates a five-star hotel under the brand name *The Grand* in New Delhi. KNM Chemicals Pvt. Ltd. ("**Respondent**") is engaged in the business of trading industrial chemicals used for cleaning air-conditioners, cooling towers, and boilers. Over the years, the Petitioner procured chemicals from the Respondent under a running account arrangement. Disputes arose when the Respondent claimed that certain invoices remained unpaid despite regular supplies and multiple follow-ups.

The Respondent, being a registered MSME, invoked the dispute resolution mechanism under the MSMED Act and approached the Micro and Small Enterprise Facilitation Council ("**MSEFC**"). After conciliation proceedings failed, the matter was referred to DIAC for arbitration under Section 18(3) of the MSMED Act. The arbitral tribunal ("**AT**") awarded the Respondent a sum of INR 17,06,492 along with interest, rejecting the counterclaims filed by the Petitioner.

Aggrieved by the decision, the Petitioner challenged the award under Section 34 of the A&C Act, arguing that the award was patently illegal, that the AT had overlooked payments already made, and that the quality of goods supplied was substandard.

Findings of the High Court

On Validity of MSME Proceedings

The High Court noted that the Petitioner had previously challenged the Respondent's MSME status in *W.P.(C) 12270/2022*, wherein it was held that the Respondent was entitled to claim benefits under the MSMED Act for invoices raised post-registration (*i.e.*, after 13.02.2019). As this issue had already been settled, the Petitioner's attempt to re-litigate the validity of MSME proceedings was rejected.

Delayed Objections to Goods' Quality

The Petitioner claimed that the chemicals supplied by the Respondent were substandard and relied on a test report from Shriram Institute for Industrial Research. However, the High Court noted that the Petitioner raised objections only four and a half months after the last delivery (on 12.06.2019). The AT, applying **Section 42 of the Sale of Goods Act, 1930**, held that acceptance of goods is deemed to have occurred if the buyer does not raise objections within a reasonable time. The High Court found this reasoning to be sound and concluded that the Petitioner had ample opportunity to dispute the quality earlier but failed to do so.

On Evidentiary Value of the Test Report

The High Court upheld the AT's rejection of the Shriram Institute test report, noting that the samples were not collected by the institute but were supplied by the Petitioner itself, thereby diminishing their credibility. Additionally, the Petitioner failed to produce any customer complaints regarding defective goods, further weakening its claim.

On Rejection of Counterclaims

The Petitioner's counterclaim of INR 1.22 crore was based on alleged losses due to defective supplies and employee misconduct. However, the High Court noted that the Petitioner failed to present any supporting evidence. The Petitioner's assertion that its employees had colluded with the Respondent to manipulate records remained unsubstantiated, as none of the alleged employees were examined or cross-examined before the AT.

On Adjustment of Payments

The Petitioner argued that it had already made partial payments, which the AT failed to consider. The High Court observed that the AT had duly accounted for a payment of INR 3,00,000 while computing the final award amount. The Petitioner's additional claim of INR 6,10,430 as further payments was unsupported by sufficient evidence and was rightly disregarded by the AT.

On Statutory Interest under the MSMED Act

The AT awarded interest under Sections 16 and 17 of the MSMED Act, applying the statutory interest rate from 27.07.2019 until the realization of the award. The High Court upheld this finding, reiterating the mandatory nature of interest provisions under the MSMED Act.

Based on these findings, the High Court dismissed the petition, affirming that the arbitral award did not suffer from patent illegality or procedural defects.

Comment

This ruling reinforces the supremacy of the MSMED Act in disputes involving registered MSMEs. The High Court's emphasis on timely objections under the Sale

of Goods Act highlights the importance of buyers raising quality concerns promptly, rather than using them as a defense only after disputes escalate.

Contact

For any query, help or assistance, please reach out at info@trinitychambers.in or visit us at www.trinitychambers.in.

Authors



Vasanth Rajasekaran
Founder & Head
vasanth@trinitychambers.in



Harshvardhan Korada
Counsel
harshvardhan@trinitychambers.in