

Andhra Pradesh High Court Rejects Request For Appointment Of Independent Arbitrator In Absence Of Any Evident Bias

Authors: *Vasanth Rajasekaran and Harshvardhan Korada*

Introduction

The Andhra Pradesh High Court, in *M/s. Kranthi Grand DKNV Hospitalities v. M/s. Manasa Estates and Hospitality Pvt. Ltd.* [Arb. Appl. No. 62 of 2023], reaffirmed the principle that arbitration agreements must be upheld as per their terms, unless there are valid grounds to deviate from them. The High Court dismissed the petitioner's request for the appointment of an independent arbitrator under Section 11(6) of the Arbitration and Conciliation Act, 1996 ("**A&C Act**"), holding that the parties had explicitly agreed to a named arbitrator in their sub-lease agreement. In this article, we navigate through the facts of the case and the findings rendered by the High Court.

Brief Facts

The dispute arose out of a *Sub-Lease Agreement* dated 6 January 2018, under which M/s. Kranthi Grand DKNV Hospitalities ("**Applicant**") entered into a sub-lease with M/s. Manasa Estates and Hospitality Pvt. Ltd. ("**Respondent**") for the purpose of running a hotel. The lease was for a period of eight years, commencing from 1 April 2018, with a monthly rental of Rs. 14,00,000/-.

The Applicant claimed that it had invested Rs. 30,00,000/- in renovations to make the premises suitable for running a hotel. However, it alleged that the Respondent interfered with its peaceful possession and forcibly dispossessed it before the agreed lease period expired in 2026. Consequently, the Applicant sought to invoke arbitration to resolve the dispute.

Clause 15 of the *Sub-Lease Agreement* specified that all disputes would be referred to arbitration by Mr. Venu Gottipati, the named arbitrator. However, the Applicant issued a notice on 23 September 2023, proposing the appointment of an independent arbitrator instead of the named arbitrator. The Respondent objected to this, insisting that the arbitration must proceed as per the contractually agreed terms. Faced with this deadlock, the Applicant approached the High Court under Section 11(6) of the A&C Act, seeking the appointment of an arbitrator other than Mr. Venu Gottipati.

Findings of the High Court

Party Autonomy and Enforceability of Named Arbitrator Clause

The High Court emphasised that when parties have explicitly agreed to a specific arbitrator in their arbitration clause, Courts should uphold such agreements unless there are valid legal grounds to deviate. Relying on *Northern Railway Administration v. Patel Engineering Co. Ltd.* [(2008) 10 SCC 240] and *Indian Oil Corporation Ltd. v. Raja Transport Pvt. Ltd.* [(2009) 8 SCC 520], the High Court reiterated that reference of disputes to a named arbitrator is the rule, and

appointing an independent arbitrator is an exception to be exercised only for justifiable reasons.

Lack of Evidence to Establish Bias or Conflict of Interest

The High Court observed that the Applicant had not presented any substantial evidence to demonstrate that the named arbitrator was biased or incapable of acting impartially. The only ground cited by the Applicant was that it did not "trust" the named arbitrator, as he allegedly took the Respondent's side and failed to respond to its concerns. The High Court found this explanation to be vague and unsubstantiated, holding that mere apprehensions or subjective fears do not justify disregarding a contractually agreed arbitrator.

Application of Section 12(5) of the A&C Act

The High Court noted that under *Section 12(5)* of the A&C Act, an arbitrator is disqualified from acting if he falls within any category listed in the Seventh Schedule, such as having a direct financial interest in the dispute. However, the Applicant had not alleged that the named arbitrator was ineligible under Section 12(5). In the absence of any disqualification, the High Court held that there was no basis to appoint an independent arbitrator.

Supreme Court's Guidance on Upholding Arbitration Agreements

The High Court referred to *Indian Oil Corporation Ltd. v. Raja Transport Pvt. Ltd.* [(2009) 8 SCC 520], where the Supreme Court held that arbitration agreements must be enforced as a "package," including the agreed appointment procedure. A party cannot selectively seek arbitration while disregarding the agreed mechanism for appointing the arbitrator. The High Court reaffirmed that deviating from a named arbitrator requires strong and compelling reasons, which were absent in the present case.

Referral to the Named Arbitrator

The High Court concluded that since no valid grounds were presented to override the agreed arbitration clause, the disputes must be referred to the named arbitrator. It directed the named arbitrator to enter upon the reference and proceed with the arbitration in accordance with the terms of the agreement. The parties were granted liberty to file their respective claims and counterclaims, with the arbitrator required to render an award within the statutory timeline prescribed under the A&C Act.

Based on these findings, the High Court dismissed the arbitration application and directed the parties to adhere to the terms of their arbitration agreement.

Comment

This decision reinforces the fundamental principle of party autonomy in arbitration, ensuring that contractual agreements regarding the appointment of arbitrators are upheld. The High Court's reasoning aligns with established Supreme Court precedents, emphasizing that Courts should not intervene in arbitration agreements unless there is a clear legal justification.

By rejecting vague allegations of bias and requiring substantive evidence to challenge a named arbitrator, the judgment sets a strong precedent against unwarranted attempts to bypass agreed arbitration mechanisms.

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