
Disputes Involving the Partnership Act and Partnership Deed Affecting Third-Party Rights Not Arbitrable: Madhya Pradesh High Court

Authors: *Vasanth Rajasekaran and Harshvardhan Korada*

Introduction

The Madhya Pradesh High Court in ***Gokul Bansal v. Vipin Goyal*** [Arbitration Case No. 44 of 2021] addressed an important question concerning the arbitrability of partnership disputes, particularly when they involve immovable property. The case arose from an application seeking the appointment of an arbitrator under Section 11(4) of the Arbitration and Conciliation Act, 1996 ("**Arbitration Act**"). The applicant sought to enforce an arbitration clause in a partnership deed, demanding a partition of his 13% share in the firm's property. However, the High Court held that such disputes, which touch upon third-party rights and require dissolution proceedings, fall outside the ambit of arbitration. In this article, we navigate through the facts of the case and the findings rendered by the Madhya Pradesh High Court.

Brief Facts

The case revolved around M/s Om Jai Gurudev, a registered partnership firm constituted on 7 November 2014, with a partnership deed executed on 18 July 2017. Initially, the firm had 11 partners, but following an amendment to the partnership deed on 20 March 2019, only the applicant and the non-applicants remained as partners. The firm owned immovable property located at Mahadik Ka Bada, Lohiya Bazar, Lashkar, Gwalior, where a commercial complex had been constructed.

The applicant, claiming a 13% share in the partnership firm, sought the division of this immovable property in metes and bounds. Despite repeated requests, the non-applicants refused to accommodate his demand, leading him to invoke Clause 11 of the partnership deed, which provided for arbitration. A notice dated 4 January 2021 was issued to the non-applicants, proposing the appointment of an arbitrator. In response, the non-applicants objected, arguing that no dispute existed regarding the partnership or its functioning and that the appropriate remedy for the applicant was to approach a civil Court rather than seek arbitration. Following these objections, the applicant approached the High Court under Section 11(4) of the Arbitration Act, seeking the appointment of an arbitrator.

Arguments from Both Sides

The applicant argued that Clause 11 of the partnership deed clearly provided for arbitration in case of disputes. It was submitted that his demand for a partition of his 13% share in the firm's immovable property was a dispute arising out of the partnership, and hence, it fell squarely within the scope of the arbitration clause. The applicant relied on ***VGP Marine Kingdom Private Limited v. Kay Ellen Arnold***, AIR 2022 SC 5474, where the Supreme Court held that arbitration clauses must be given full effect unless there are compelling reasons to exclude disputes from their purview.

On the other hand, the non-applicants opposed the application, arguing that the relief sought by the applicant was legally untenable in arbitration proceedings. It was contended that under the Indian Partnership Act, 1932, a partner's entitlement is limited to a share in the profits of the firm, not in its immovable property. The non-applicants relied on *Vidya Drolia & Ors. v. Durga Trading Corporation*, (2021) 2 SCC 1, where the Supreme Court laid down that disputes involving third-party rights and actions in rem are non-arbitrable.

Further, they cited *Addanki Narayanappa v. Bhaskara Krishnappa*, AIR 1966 SC 1300, which held that a partner has no specific interest in the firm's immovable property and can only claim a share in the net assets upon dissolution. It was argued that the claim for physical partition of the firm's property was contrary to partnership law and could not be adjudicated by an arbitrator. Additionally, reliance was placed on *Arif Azim Co. Ltd. v. Aptech Ltd.*, AIR 2024 SC 1347, where the Supreme Court reaffirmed that non-arbitrable claims arising from statutory limitations must be adjudicated by civil Courts.

Findings of the Madhya Pradesh High Court

The High Court examined whether the dispute fell within the scope of arbitration and whether it was arbitrable in the first place. It began by reiterating that while arbitration is encouraged for commercial disputes, certain matters, such as partnership disputes involving third-party rights, statutory obligations, and dissolution proceedings, remain non-arbitrable.

The High Court referred to *Addanki Narayanappa (supra)* to hold that a partner does not have a direct, divisible interest in the firm's immovable property. It observed that the applicant was attempting to bypass the established legal principle that partnership property belongs to the firm, not individual partners. A partner's interest is limited to the firm's profits, and upon dissolution, he is entitled only to the monetary equivalent of his share, not a division of the firm's physical assets.

The High Court also relied on *Vidya Drolia (supra)* to highlight that disputes affecting third-party rights, such as those of tenants who were not signatories to the arbitration agreement, could not be referred to arbitration. Since the subject property had tenants whose rights could be impacted by the proposed division, the dispute was deemed non-arbitrable.

Furthermore, the High Court referred to *NTPC Ltd. v. M/s SPML Infra Ltd.*, AIR 2023 SC 1974, where the Supreme Court refused reference to arbitration when a claim was found to be meritless and beyond the arbitrator's jurisdiction. The High Court held that in the present case, arbitration could not be a remedy since the relief sought was inherently barred by law.

Ultimately, the High Court held that the applicant could not claim a specific portion of the firm's immovable property without first seeking dissolution of the partnership. The claim for partition was legally impermissible, making the dispute non-arbitrable. The application for the appointment of an arbitrator was dismissed, with the High Court clarifying that the applicant was free to pursue other remedies as available under the law.

Comment

This ruling reiterates the well-established principle that disputes concerning a partnership's property, particularly those seeking division in metes and bounds, cannot be adjudicated through arbitration. By dismissing the application, the High Court has reaffirmed that arbitration is not a substitute for civil remedies where statutory provisions dictate a specific course of action.

From a practical perspective, this case highlights the importance of understanding the legal boundaries of arbitration. While arbitration remains a preferred mode of dispute resolution for commercial matters, it cannot override substantive legal rights or alter established principles of property and partnership law.

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