
MSMED Act Will Prevail Over Arbitration Act In Disputes Involving MSMEs: Delhi High Court

Authors: *Vasanth Rajasekaran* and *Harshvardhan Korada*

Introduction

In a recent ruling, the Delhi High Court, in *Idemia Syscom India Private Limited v. M/s Conjoinix Total Solutions Private Limited* [2025:DHC:1205], dismissed a petition seeking the appointment of an arbitrator under Section 11 of the Arbitration and Conciliation Act, 1996 ("A&C Act"). The High Court held that since the Respondent had already invoked the dispute resolution mechanism under the Micro, Small and Medium Enterprises Development Act, 2006 ("MSMED Act"), the arbitration agreement between the parties could not override the statutory provisions of the MSMED Act.

The decision of the High Court reinforces the supremacy of the MSMED Act in disputes involving registered MSMEs, affirming that its statutory framework takes precedence over private arbitration agreements. 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 *Service Framework Agreement* dated 9 February 2022 between Idemia Syscom India Private Limited ("**Petitioner**") and Conjoinix Total Solutions Private Limited ("**Respondent**"). The agreement pertained to IT services for a project awarded to the Petitioner by the State Transport Department, Orissa. The Petitioner alleged that the Respondent had breached the contract, leading to disputes.

The Respondent invoked arbitration *via* an email on 1 July 2024, proposing the name of a sole arbitrator. However, the Petitioner expressed reservations, leading to a deadlock in the appointment process. Consequently, the Petitioner filed a petition under Section 11 of the A&C Act before the Delhi High Court, seeking the High Court's intervention in appointing an arbitrator.

During the pendency of the petition, the Respondent initiated proceedings under Section 18 of the MSMED Act before the MSME Facilitation Council, Chandigarh. The Respondent opposed the Petitioner's request for arbitration, arguing that the MSMED Act, being a special statute, had an overriding effect over the arbitration clause in the agreement.

Findings of the High Court

The High Court delved into the interplay between the A&C Act and the MSMED Act, focusing on whether a party registered as an MSME could rely on the dispute resolution mechanism under the MSMED Act despite the existence of an arbitration agreement.

1. **Overriding Effect of the MSMED Act:** The High Court relied on *Silpi Industries v. Kerala State Road Transport Corporation* [(2021) 18 SCC 790] and *Gujarat State Civil Supplies Corpn. Ltd. v. Mahakali Foods (P) Ltd.* [(2023) 6 SCC 401], both of which held that the MSMED Act, being a special law enacted for the benefit of MSMEs, prevails over the A&C Act. The High Court noted that Sections 18(1) and 18(4) of the MSMED Act contain non-obstante clauses, which override any inconsistent provisions of other laws, including the A&C Act.
2. **Jurisdiction of the MSME Facilitation Council:** The High Court observed that the MSMED Act provides a statutory mechanism for resolving disputes related to payment recovery and interest on delayed payments. As per Section 18(3) of the MSMED Act, if conciliation fails, the dispute is automatically referred to arbitration either before the Facilitation Council or an institution appointed by it. The High Court reiterated that once the MSME mechanism is triggered, parties cannot bypass it in favour of private arbitration agreements.
3. **Limited Scope of Enquiry Under Section 11 of the A&C Act:** Citing *SBI General Insurance Co. Ltd. v. Krish Spinning* [2024 INSC 532], the High Court clarified that in a Section 11 petition, its role is limited to a *prima facie* examination of the existence of an arbitration agreement. It is not required to engage in detailed factual adjudication, which would fall within the jurisdiction of the arbitral tribunal.
4. **Disputed Nature of the Contract:** The Petitioner argued that the contract in question was a "*works contract*" and thus fell outside the ambit of the MSMED Act. The Respondent, however, contended that it was a contract for services, which is explicitly covered under the MSMED Act. Given this dispute, the High Court held that such a determination required detailed examination of evidence, which was beyond the scope of a Section 11 proceeding.
5. **Effect of Prior Invocation of the MSME Mechanism:** The High Court emphasised that the fact that the Petitioner had filed its Section 11 petition before the Respondent approached the MSME Facilitation Council was irrelevant. Once the statutory process under the MSMED Act is invoked, it takes precedence over private arbitration agreements. The High Court rejected the argument that the sequence of filings could alter the statutory mandate.

Based on these findings, the High Court dismissed the petition, affirming that the statutory mechanism under the MSMED Act superseded the arbitration clause in the contract.

Comment

The decision of the Delhi High Court is aligned with the Supreme Court precedents, reaffirming that the MSMED Act takes precedence over the A&C Act in disputes involving MSMEs. Moreover, the decision also highlights the limited scope of judicial scrutiny in Section 11 proceedings under the A&C Act. By refusing to engage in an

extensive factual inquiry about the nature of the contract, the High Court upheld the principle that such issues should be determined by the forum designated under the applicable statute.

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