

Supreme Court Reiterates The Law On Limited Scope Of Judicial Intervention In Arbitration Proceedings

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Introduction

In *Punjab State Civil Supplies Corporation Ltd. v. Sanman Rice Mills*¹, the Hon'ble Supreme Court of India reaffirmed the principle of minimal judicial interference in arbitral proceedings under the Arbitration and Conciliation Act, 1996 ("the Act"). The Supreme Court set aside a decision of the Punjab & Haryana High Court that had overturned an arbitral award as well as the judgment of the District Court under Section 34 of the Act. This judgment emphasises the restricted scope of appellate review under Section 37 of the Act.

Facts

The appellant, Punjab State Civil Supplies Corporation Ltd. ("the Corporation"), is a government entity responsible for procurement and distribution of food grains in the state. On October 6, 2008, the Corporation entered into an agreement with M/s Sanman Rice Mills ("the Rice Mill"), which was tasked with milling paddy supplied by the Corporation. Under the terms of the agreement, the Rice Mill was required to process the paddy into rice and return the processed rice to the Corporation.

A total of 2,02,850 bags of Grade 'A' paddy, weighing 70,997.50 quintals, was supplied by the Corporation to the Rice Mill. However, after milling the paddy, the Rice Mill returned a lesser quantity of rice than what was required under the terms of the agreement. There was a shortfall of 35,110.39 quintals of rice, which amounted to a financial discrepancy of INR 7,16,15,716. The Rice Mill issued ten cheques of INR 50 lakhs each, totaling INR 5 crore, as partial payment towards the outstanding amount. However, this left a balance of INR 2,16,15,716 unpaid. A dispute subsequently arose between the parties regarding the recovery of this outstanding balance, leading the Corporation to invoke the arbitration clause in the agreement.

The Arbitration Proceedings

The dispute was referred to arbitration, and on November 8, 2012, the arbitrator issued an award in favour of the Corporation. The arbitrator ruled that the Rice Mill was liable to pay the balance amount of INR 2,67,66,804 (which included the outstanding sum and additional amounts), along with interest at 12% per annum.

The Rice Mill, dissatisfied with the award, challenged it under Section 34 of the Arbitration Act before the Additional District Judge. The Rice Mill sought to have the award set aside on the grounds that it was unjust and based on erroneous findings. However, the Additional District Judge dismissed the petition on April 7, 2015, finding no merit in the Rice Mill's objections and holding that the award was within the scope of the arbitrator's powers under the contract and the Arbitration Act.

¹ *Punjab State Civil Supplies Corporation Ltd. v. Sanman Rice Mills*, 2024 SCC OnLine SC 2632

Proceedings Before the High Court

Not satisfied with the ruling of the Additional District Judge, the Rice Mill filed an appeal under Section 37 of the Arbitration Act before the Punjab & Haryana High Court. In its appeal, the Rice Mill sought to overturn both the arbitral award and the decision of the lower Court. The High Court set aside the order passed under Section 34 and also annulled the arbitral award itself.

The High Court found that the arbitrator had not properly considered certain facts and had relied on an incorrect interpretation of the contract between the parties. The High Court's decision was based on a reappraisal of the evidence presented during the arbitral proceedings, leading it to conclude that the award could not stand.

Issue Before the Supreme Court

The question before the Supreme Court was whether the High Court, in exercising its powers under Section 37 of the Arbitration Act, had exceeded the permissible limits of judicial interference. Specifically, the Apex Court had to determine whether the High Court had improperly re-evaluated the facts and evidence, thereby overstepping the narrow grounds on which arbitral awards can be reviewed.

Findings

The Supreme Court began by reiterating the fundamental principles of arbitration law, particularly the limited scope of judicial review under Sections 34 and 37 of the Arbitration Act. Section 34 allows a Court to set aside an arbitral award only on specific grounds, such as if the award is in conflict with the public policy of India or if it is affected by fraud, corruption, or violates fundamental legal principles. Importantly, Section 34 does not permit a Court to reappraise the evidence or substitute its interpretation of the facts for that of the arbitrator.

Section 37 provides for an appeal against an order made under Section 34. However, the appellate Court's powers are restricted to reviewing whether the lower Court correctly applied the narrow grounds for setting aside an award. The Supreme Court emphasised that Section 37 is not intended to provide a forum for a full-fledged review of the merits of the arbitral award.

The Court cited its earlier decision in *Bharat Coking Coal Ltd. v. L.K. Ahuja*², where it had held that Courts must defer to the arbitrator's findings unless the award is wholly unreasonable or perverse. The arbitrator's view is to be upheld as long as it is a plausible interpretation of the facts and the contract, even if another interpretation might also be possible.

In the present case, the Supreme Court found that the High Court had exceeded its jurisdiction under Section 37 by reappraising the evidence and substituting its own interpretation of the contract for that of the arbitrator. The Supreme Court held that the High Court should have given way to the findings of the arbitrator and the decision of the Additional District Judge, which had already confirmed the validity of the arbitral award.

² *Bharat Coking Coal Ltd. v. L.K. Ahuja*, (2001) 4 SCC 86.

Conclusion

The Supreme Court reaffirmed that judicial intervention in arbitral awards is limited to the narrow grounds specified in the Act, and Courts cannot engage in reappraisal of evidence or reinterpretation of contracts. This decision underscores the importance of maintaining the integrity and finality of the arbitral process, which is intended to provide a swift and efficient resolution to commercial disputes.

By reinforcing the principle of minimal judicial interference, the judgment serves as a strong reminder that Courts must respect the autonomy of arbitration and the finality of arbitral awards, except in exceptional cases where the award is in clear conflict with public policy or the law.

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