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The Jindal Poly Films Judgement and the Emerging Jurisprudence on Section 245 Class Actions

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Introduction: A Dormant Provision Finds Its Voice

For nearly a decade, Section 245 of the Companies Act, 2013 remained a powerful yet underutilized safeguard in the hands of minority shareholders. The recent rulings of the National Company Law Tribunal and its affirmation by the National Company Law Appellate Tribunal in *Ankit Jain* v. *Jindal Poly Films Ltd.* [2026] 183 taxmann.com 491 (NCLT – New Delhi) have decisively altered that landscape.

The central question before the Tribunal was deceptively simple; *Can Section 245 be invoked to challenge past and concluded transactions?*

The answer, delivered with clarity and conviction, is unequivocal — Yes.

This judgement marks a structural shift in Indian corporate litigation. It transforms Section 245 from theoretical protection into a practical governance instrument.

Deconstructing the Court's Rationale

The class action petition was filed by shareholders holding 4.99% of the company's share capital — well above the statutory threshold of 2% prescribed under the NCLT Rules for listed companies.

The company's objections were structured around three arguments:

1. Section 245 applies only to ongoing or prospective acts.
2. Relief for past transactions must be pursued under Sections 241–242 (oppression and mismanagement).
3. A class action cannot be used to seek relief in favour of the company itself.

The Tribunal rejected all three propositions.

1. Section 245 Covers Past, Present and Continuing Acts

The company argued that the phrase "are being conducted" restricts Section 245 to acts noted in the present tense. The Tribunal, however, adopted a purposive interpretation.

It observed that Section 245(1)(g) expressly allows claims for damages or compensation for fraudulent, unlawful, or wrongful acts. Such acts may very well have already occurred. Similarly, the power to seek "any other remedy" demonstrates that Parliament did not intend to confine the provision to preventive relief alone.

The Appellate Tribunal endorsed this interpretation.

The practical implication is significant; past and concluded transactions are not insulated from class action scrutiny.

2. Section 245 is Distinct from Sections 241–242

The argument that shareholders should proceed only under oppression and mismanagement provisions was also rejected.

The Tribunal clarified that Sections 241–242 and Section 245 operate in different spheres. While oppression and mismanagement proceedings address systemic governance breakdowns and equitable reliefs, Section 245 provides a representative statutory mechanism where a defined class of shareholders forms a bona fide opinion that the company's affairs are being conducted in a prejudicial manner.

The availability of one remedy does not negate the other.

3. Relief Can Be Granted in Favour of the Company

One of the most consequential aspects of the ruling is the recognition that compensation may be directed to the company itself, even though the action is initiated by shareholders.

The Tribunal consciously declined to import American derivative-action doctrines into the Indian framework. Section 245 is a carefully designed statutory mechanism with its own contours. It allows shareholders not merely to protect personal rights, but to seek corrective action for the company as a whole.

This expands the strategic utility of the provision considerably.

Admission Stage: A Procedural Gateway, not a Merits Trial

Another critical clarification concerns the threshold for admission. At the stage of issuing notice, the Tribunal does not conduct a detailed examination of factual disputes. It only verifies:

- Whether the numerical threshold is satisfied.
- Whether the petitioners have formed a prima facie opinion of prejudice.

If these conditions are met, notice must follow.

Concerns about market impact, reputational harm, or share price volatility cannot override statutory mandates. In the present case, the company argued that public notice had triggered market anxiety. The Tribunal remained unmoved. Compliance with the statutory process cannot be diluted because of perceived commercial consequences.

This sets a clear precedent, once the threshold is crossed, procedural momentum is difficult to arrest.

A Boardroom Perspective- Governance Under a New Lens

The underlying allegations in the case related to undervaluation of investments, related party transactions, loan write-offs, and alleged disclosure gaps. Whether those allegations succeed on merits is yet to be determined. However, the jurisprudential message is unmistakable.

Class action litigation under Section 245 will increasingly focus on-

- Related party transactions.
- Valuation methodologies.

- Board decision-making processes.
- Disclosure architecture.

Boards must appreciate that governance is no longer tested only in regulatory forums. It is now open to structured shareholder litigation.

Areas Requiring Immediate Attention

1. Valuation Governance – Independent valuations must be defensible, reasoned, and properly documented. Engagement letters, assumptions, and sensitivity analyses should be carefully preserved.
2. Related Party Transaction Controls - Audit committee scrutiny must be substantive, not procedural. Documentation should reflect independent application of mind.
3. Disclosure Discipline - Delayed or corrective disclosures may become triggers for litigation narratives alleging concealment or suppression.
4. Board Minutes and Rationale Recording - Future tribunals will not only examine decisions but the reasoning behind them. The absence of detailed deliberation records may weaken defense positions.

Strategic Implications for Stakeholders

For Minority Shareholders

The ruling lowers practical barriers. Shareholders now have judicial confirmation that:

- Past transactions are challengeable.
- Relief may benefit the company.
- Alternate statutory remedies do not bar Section 245.

Institutional activism is likely to increase.

For Promoter-Driven Companies

Transactions involving promoter entities will attract heightened scrutiny. Even commercially justifiable decisions must withstand valuation transparency and procedural integrity tests.

For Independent Directors

Section 245 explicitly contemplates claims against directors, auditors, and experts. Independent directors must therefore:

- Insist on comprehensive briefing materials.
- Seek clarifications on assumptions in valuation reports.
- Record dissent where appropriate.
- Consider external legal or financial opinions in sensitive matters.

Personal exposure risk has materially expanded.

The Emerging Regulatory Convergence

Section 245 proceedings do not operate in isolation. Allegations often intersect with:

- SEBI (Listing Obligations and Disclosure Requirements) Regulations.
- Valuation standards.
- Related party transaction approval norms.

This creates dual exposure:

- Corporate law litigation before the Tribunal.

- Securities law scrutiny before market regulators.

In complex matters, coordinated regulatory attention may become the norm rather than the exception.

Key Considerations for Boards and Practitioners

- Conduct periodic governance risk audits of significant past transactions.
- Strengthen internal documentation practices.
- Develop communication protocols for handling admission-stage public notices.
- Reassess Directors' and Officers' insurance coverage in light of expanded litigation risk.
- Engage proactively with institutional shareholders to mitigate adversarial escalation.

Preventive governance is far less costly than defensive litigation.

Looking Ahead: The Future of Section 245

This judgement is likely to produce three structural developments:

1. Increase in Class Action Filings

Shareholders may invoke Section 245 in matters involving asset sales, write-offs, strategic investments, and valuation disputes.

2. Greater Institutional Shareholder Participation

Institutional investors may use Section 245 not merely as a damages mechanism but as a governance accountability tool.

3. Judicial Development of Good Faith Standards

Future cases will refine the contours of "good faith," ratification defences, and limitation principles.

The next wave of jurisprudence will shift from maintainability to substantive adjudication standards.

Conclusion: A Governance Inflection Point

The *Jindal Poly Films* (*supra*) rulings mark the coming of age of Section 245.

The Tribunal has affirmed that:

- The provision is investor-protective and purposive.
- Its scope extends to past and concluded acts.
- Relief may benefit the company.
- Procedural admission is not a merits adjudication.

Corporate India must recalibrate.

Section 245 is no longer dormant text in the statute book. It is an active governance variable.

Boards that treat governance as a compliance checklist may face structured shareholder challenges. Boards that treat governance as institutional discipline will find resilience.

Indian corporate law is entering a more participative and accountability-driven era. Section 245 will be central to that transformation.

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