



**CHALASANI UDAYA SHANKAR AND OTHERS VERSUS M/S. LEXUS
TECHNOLOGIES PVT. LTD. AND OTHERS BALANCING SHAREHOLDER
CLAIMS AND PROCEDURAL INTEGRITY: INSIGHTS FROM THE SUPREME
COURT'S VERDICT ON LEXUS TECHNOLOGIES**

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INTRODUCTION

This case depicts a situation in which the shareholders of M/s. Lexus Technologies Pvt. Ltd are facing issues with regard to recording their name in the register of members as per sections 59 and 88 of the Companies Act 2013. The appellants Chalasani Udaya Shankar, Sripathi Sreevana Reddy, and Yalamanchilli Manjusha contended that after acquiring shares from one of the respondents, the Board of Directors failed to record the names of the appellants in the register which resulted in the deprivation of their shareholders rights. This dispute has resulted in various stages of appeal from multiple judicial levels, from the National Company Law Tribunal (NCLT) to the National Company Law Appellate Tribunal (NCLAT), offering diverse views on procedural matters, jurisdictional authority and evidence verification. This judgement helps to understand the importance of sections 59 and 88, As per section 59 of the Companies Act 2013(hereinafter referred to as Act) if a person's name is wrongfully entered or omitted to record in the register or delay in recording then either the aggrieved person, member of the company or the company itself can file an appeal to the tribunal or competent court. As per section 88 of the Act, every company must maintain a register in the prescribed form.

CASE BACKGROUND AND FACTS

M/s Lexus Technologies Pvt Ltd was incorporated as per the provisions of the Companies Act 1956. On 9th March 2004 Mantena Narasa Raju [herein after mentioned as Respondent No 2] acquired 10,51,933 equity shares representing 94.8% of the equity share capital. Later Mantena Narasa (hereinafter mentioned as Respondent No 1) and Appa Rao Mukkamala (hereinafter

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mentioned as Respondent No 3) were appointed as the directors of the company on 2nd March 2004. After that, Suresh Anne (hereinafter mentioned as Respondent No. 4) became a director. Appellants acquired the equity shares from respondent 2 i.e., 10,51,933. Chalasani Udaya Shankar (hereinafter mentioned as Appellant No 1) acquired 3,51,933 equity shares representing 31.72% of the stake, while Sripathi Sreevana Reddy (hereinafter mentioned as Appellant No 2) and Yalamanchi Manjusha (Hereinafter mentioned as appellant No 3) acquired 3,50,000 equity shares each representing 31.54% individual shareholding. Share certificates were also issued to them by the respondent. The appellant out of having good relations with the respondent entrusted them with the managerial control, but later due to their failure to conduct Annual General Meeting during the FY 2014-15, 2015-16, 2016-17 the Registrar of Companies struck off the name of M/s Lexus Technologies Pvt Ltd. Only after that the appellants came to understand that the respondents filed annual returns and Financial Statements without mentioning the appellant's name in the shareholding records.

ARGUMENTS BY APPELLANTS

Here the appellants stated that they had congenial relations with the respondents, therefore they assumed that the respondents would be conducting the affairs of the company smoothly, but they failed to file annual returns and financial statements, so when they filed the return in order to revive the company after the registrar of company struck off the name. Only at that time, did the appellants become aware of the fact that their names have been removed by the respondents from the list of shareholdings. The appellants confronted that the respondents committed various acts of oppression with the intention of grabbing company property, they also wanted to rectify the register of members to include their names and to take appropriate action against the respondents.

ARGUMENTS BY RESPONDENTS

The respondents contended that the appellants could not allege oppression and mismanagement as they are not members of the company and the appellants also do not have the right to file the petition as it is barred by the limitation apart from the respondents alleging that appellants don't even have locus to file the suit. One of the respondents claimed that he never borrowed from the appellants but instead, he borrowed from another person who obtained a signature from the respondent on some blank paper, which might have been used by him for forging a share certificate for the appellant.

ANALYSIS OF TRIBUNAL ORDERS

- NCLT's preliminary results: NCLT first acknowledged the claims of the appellant based on the evidence submitted which includes financial transactions, share certificates and supporting documents. It emphasized the importance of thorough investigation of the transactions, especially giving more focus on the authenticity of the documents and need for finding the missing shareholder's information. Therefore, an interim status quo order was issued by the NCLT, which restricted Lexus Technologies from selling its assets.
- The NCLT's final judgment is totally different from the interim judgment produced by the NCLT. The acting president of the NCLT stated that the claims of the appellants were not factual substantial of the facts and not supported by the evidence also it lacked procedural formality therefore he disallowed the arguments put forward by the appellants still, departed drastically from its interim status.
- NCLAT's Reinforcement: The appellate tribunal also echoed the findings of the NCLT, especially showcasing the lack of clear documentation in the case of the share transfer of the appellants and the transaction was merely considered as the financial arrangement rather than the sale of shares which gives significant importance to the respondent's contentions that funds received were loans. NCLAT noted the inconsistencies in the testimonies of the respondents and accepted their contentions.

REASONING AND INTERPRETATION OF THE SUPREME COURT

Evidence Weighing Scrutiny: The Supreme Court observed significant deficiencies in the way the National Company Law Tribunal (NCLT) and the National Company Law Appellate Tribunal (NCLAT) looked at the evidence. Both tribunals did not attempt to analyze critical documents such as share certificates and transfer deeds. The Court pointed out that these documents are fundamental in assessing a claim's authenticity and in determining whether a transaction's associated claims support the existence of its corresponding owned definitive documents. This lack of proof raised issues concerning the fairness of the process as ownership posers should always be accompanied by some proof, not by a leap of faith. The Court emphasized that tribunals should make sure that there is proper evidence verification, especially in cases where fraud is alleged. When there are disputes in relation to the ownership of shares, tribunals ought to not be gullible as to take allegations at face value. This claim

ensures that lower judicial authorities make decisions that are based on evidence and not on mere convenience or, procedural tactics devoid of substantive content.

UPHOLDING EQUITABLE PROCESS IN CASES OF RECTIFICATION UNDER SECTION 59 OF COMPANIES ACT, 2013

The Supreme Court equally emphasized the need for fairness in the processes concerning cases brought on under Section 59 of the Companies Act, 2013 which is concerned with rectification of the register of members. To delineate the bounds of rectification, the Court cited landmark cases such as Ammonia Supplies Corporation and Shashi Prakash Khemka.

Simple Corrections vs. Multifaceted Fraud Cases: The Court provided distinction noticing that the rectification in terms of Section 59 of the Act is confined only to simple alterations in the members' register. If the case involves fraudulent transfer of shares or where the ownership of the shares is controverted, then this is an area of law that is complex and needs detailed attention beyond simple rectification.

Third Duty of the Tribunal to Consider: Tribunals ought to consider whether the matter is simple slippages of clerical work or whether it involves intricate fraud that needs detailed investigation. Where fraud exists, the petition ought not to be dismissed at the very first step. Tribunals ought to inquire exhaustively and only thereafter make a decision.

THE NECESSITY OF DUE DILIGENCE AGAINST FRAUD ACTIVITY

The Companies Act, 2013, prevents civil claims from being filed with the Company law civil courts, hence the Supreme Court made it clear that the tribunal's principal duties include the inquiry of corporate frauds. The Court found a gap in the procedure in the failure to require additional supporting documents to justify the dismissal of claims. To enable fairness of processes tribunals are required to look into all files pertaining to the case before making a ruling.

Process and prove any shareholder allegations made instead of throwing them out. Make use of their full powers in ownership disputes before determining the final judgment.

EXPANDING NCLT'S ROLE IN INVESTIGATING SHAREHOLDER FRAUD

The Supreme Court's ruling strengthens the **National Company Law Tribunal's (NCLT) role** in handling shareholder fraud cases. It clarifies that tribunals have the authority to:

- Take a **proactive role** in investigating fraudulent share transfers.
- Examine **corporate records and ownership structures** without requiring claimants to go to civil courts.
- Ensure **strict compliance** with legal procedures for share transfers, preventing fraudulent activities.

By reinforcing the NCLT's power in corporate fraud cases, this ruling improves **investor confidence** and strengthens governance mechanisms in India's corporate sector.

CLARIFYING THE LIMITATION PERIOD IN FRAUD CASES

The Supreme Court also addressed an important legal question: **When does the limitation period start in fraud cases?** Generally, legal claims must be filed within a set period from the time the issue arises. However, in fraud-related cases:

✓ The **limitation period begins when the fraud is discovered**, not when it was committed.

✓ This principle ensures that wrongdoers **can't escape liability** simply because time has passed.

✓ The burden of proof shifts to the accused party to disprove fraud allegations, rather than forcing the victim to discover wrongdoing within a rigid time limit.

This clarification ensures that fraudsters **cannot use legal technicalities to evade responsibility**, allowing victims enough time to seek justice.

CONCLUSION

This Supreme Court ruling is a major step toward strengthening corporate governance and shareholder rights in India. By emphasizing: Stronger evidence requirements, an expanded role for NCLT in fraud investigations, and Clearer rules on the limitation period for fraud cases the judgment enhances transparency and accountability in corporate law. Most importantly, it ensures that tribunals make decisions based on facts rather than procedural shortcuts, preventing wrongful dismissals and promoting fair adjudication under the Companies Act, 2013.