

**In Re: Ratan Housing Development Ltd.**

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**SooperKanoon Citation :** [sooperkanoon.com/480546](http://sooperkanoon.com/480546)

**Court :** Allahabad

**Decided On :** Apr-22-2004

**Reported in :** [2004]122CompCas24(All); (2004)4CompLJ426(All);  
[2005]58SCL274(All)

**Judge :** Tarun Agarwala, J.

**Acts :** [Companies Act, 1956](#) - Sections 391

**Appeal No. :** Company Petition No. 54 of 2003 and Company Application No. 20 of 2003

**Appellant :** In Re: Ratan Housing Development Ltd.

**Advocate for Pet/Ap. :** Piyush Agarwal, ;Subodh Kumar and ;Atul Agarwal, Advs.

**Judgement :**

**Tarun Agarwala, J.**

1. Ratan Housing Development Ltd. (hereinafter referred to as the transferee company) having its registered office at 55/57, Generalganj, Kanpur, seeks amalgamation under Chapter V of the [Companies Act, 1956](#), with the transferor company, Graceful Properties Ltd. (hereinafter referred to as the transferor company) having its registered office at 102, Stephen House, BBD Bagh (East), Kolkatta in accordance with the scheme of amalgamation annexed as annexure A

to this company petition.

2. On hearing the company application No. 20 of 2003, this court on August 28, 2003, dispensed with the meeting of the shareholders of the transferee company for the purpose of considering, and if thought fit, for approving with or without modification, the scheme of amalgamation by which the transferor company was proposed to be amalgamated with the transferee company. Since there were no creditors in the transferee company consequently the meeting of the creditors was required to be called for.

3. The transferee company thereafter filed the present petition under rule 79 of the Companies (Court) Rules, 1959, on September 29, 2003, for sanctioning the scheme of amalgamation. This court, vide an order of the same date directed the transferee company to get the notices published in accordance with rule 80 of the Companies (Court) Rules in two newspapers, namely, 'Times of India' published in English from Lucknow and 'Dainik Jagran' published in Hindi from Kanpur. It was further directed that the notice was to be published at least ten days prior to the date fixed for hearing. The petitioner was also directed to serve the notice on the Regional Director, Company Law Board, Northern Region, Kanpur, and the official liquidator and November 17, 2003, was fixed for hearing of the petition. The notices have been duly published in the aforesaid two newspapers and the same is on the record.

4. In response to the notice issued to the Regional Director, Company Law Board, Kanpur and the official liquidator, the former has filed his affidavit/ representation and has submitted that the ratio of exchange as proposed in this scheme of amalgamation is not in the interest of the shareholders of the transferor company. The objection raised by the Regional Director, Company Law Board, Kanpur, is that the valuers have valued the share of the transferee company on the basis of the book value of the shares of the said company, whereas in the case of the transferor company the shares have been valued on the basis of the average quoted price per share for the last three years as quoted by the Kolkatta Stock Exchange. It was contended that two different methods of the valuation should not be adopted for valuing the shares of the respective companies. The Regional

Director contended that the price quoted at the Kolkatta Stock Exchange of the transferor company could not be considered, as the fair value of the shares of the transferor company and that the book value of the shares of the transferor company should be taken as the fair value and on that basis the ratio of exchange should be made in the scheme of amalgamation. The Regional Director, Company Law Board, Northern Region, Kanpur suggested that the fair ratio of exchange should be two shares of Rs. 10 each of the transferee company for every one share of Rs. 10 each of the transferor company instead of one equity share of Rs. 10 each of the transferee company for every five equity share of Rs. 10 each of the transferor company, as stated in the scheme of amalgamation.

5. The official liquidator in his report No. 327 of 2003 stated that he is only required to submit a report under Section 394 of the Companies Act with regard to the transferor company and not with regard to the transferee company. Since the transferor company is located in Kolkatta, therefore no report is required to be submitted before this court.

6. Heard Sri Piyush Agrawal, learned counsel for the petitioner, Sri K. Saxena, the official liquidator attached to this court and Sri Subodh Kumar, learned counsel appearing on behalf of the Regional Director, Company Law Board, Northern Region, Kanpur.

7. The Supreme Court in Hindustan Lever Employees' Union v. Hindustan Lever Ltd. [1995] 83 Comp Cas 30 at page 53 held :

'It will, therefore, appear that in the case of amalgamation a combination of all or some of the methods of valuation may be adopted for the purpose of fixation of the exchange ratio of the shares of the two companies.'

8. It is thus clear that different methods of valuation could be adopted for valuing the shares of the respective companies.

9. In the present case, the valuer found that the realisable value of assets of the company was not ascertainable fairly and therefore the next asset value method would not give a fair value of the share of the company. The valuer further found

that the transferor company was running in losses or very little profit in the last three years and therefore, the earning capitalisation method would also not give a fair value of the shares. In such circumstances, the valuer took the average quoted price of the shares of the company of the last three years in arriving at the value of the share of the transferor company.

10. On the other hand, the valuer found that the transferee company is an unlisted company and is also a closely held company. Since the value of the shares was not quoted by the stock exchange, the valuer took the net assets of the company against the fully paid up equity shares and arrived at the net asset value per share.

11. The Regional Director in his objection has not contended that the valuer has played a fraud. The Regional Director only contended that one method of valuation should have been adopted. As stated earlier, the Supreme Court has held in Hindustan Lever's case [1995] 83 Comp Cas 30, that different methods of valuation could be adopted for the purpose of fixation of the exchange ratio of the shares of the two companies. Thus, in the absence of fraud or mala fides, the mere fact that the determination of the exchange ratio of the shares of the two companies could be done by a slightly different method which might have given a different exchange ratio could not justify interference unless it was found to be unfair.

12. In the present case, all the shareholders of the transferee company have unanimously approved the scheme of amalgamation and, therefore, have approved the exchange ratio. The shareholders of the transferor company has also approved the scheme of amalgamation before the Calcutta High Court. Since the scheme of amalgamation and consequently the exchange ratio has been approved unanimously, there is no reason why their business decision should be interfered with and the court should therefore proceed on the basis that the ratio of exchange as approved by the shareholders of the transferor company is the fair ratio of exchange.

13. Further, in the absence of any challenge from the shareholders of the transferor company, who are primarily and exclusively to question the ratio of exchange of shares, the exchange ratio has to be considered as fair and

reasonable.

14. A similar view was also taken by the Calcutta High Court in the matter of E. I. T. A. India Ltd., In re, AIR 1997 Cal 208 ; [2000] 99 Comp Cas 276, and by the Madras High Court in Coimbatore Cotton Mills Ltd. and Lakshmi Mills Co. Ltd., In re [1980] 50 Comp Cas 623 and by the Bombay High Court in Govind Rubber Ltd., In re, Pavan Tyres Ltd., In re [1995] 83 Comp Cas 556, as well as by the Supreme Court in Hindustan Lever's case [1995] 83 Comp Cas 30.

15. In Operations Research (India) Ltd., In re [1999] 34 CLA 146 ; [2000] 101 Comp Cas 101., the Gujarat High Court held that if the shareholders in their commercial wisdom have accepted the exchange ratio of shares with their open eyes, it would not be open for the Regional Director to raise objections in the exchange ratio.

16. In Kamala Sugar Mills Ltd., In re [1984] 55 Comp Cas 308, the Madras High Court held (page 314) :

'Besides, the exchange ratio has been accepted without demur by the overwhelming majority of the shareholders of the two companies. No shareholder has come forward and objected before me that the ratio fixed in the scheme of amalgamation is neither fair nor reasonable. It cannot be disputed and it was not disputed as a matter of fact by Mr. U. N. R. Rao, that the shareholders are the best judges on the rate of exchange ratio to be fixed in a scheme of amalgamation and once they have accepted it, it is not for the court to say that the shareholders of both the companies in their collective wisdom should not have accepted the exchange ratio arrived at in the scheme of amalgamation on the ground that it was detrimental to their interest.'

17. The aforesaid view was affirmed by the Supreme Court in Miheer H. Mafatlal v. Mafatlal Industries Ltd. [1997] 1 SCC 579 ; [1996] 87 Comp Cas 792.

18. In Hindustan Lever's case [1995] 83 Comp Cas 30 the Supreme Court held (page 39) :

'Section 394 casts an obligation on the court to be satisfied that the scheme for amalgamation or merger was not contrary to public interest. The basic principle of such satisfaction is none other than the broad and general principles inherent in any compromise or settlement entered into between parties that it should not be unfair or contrary to public policy or unconscionable. In amalgamation of companies, the courts have evolved, the principle of 'prudent business management test' or that the scheme should not be a device to evade law.'

19. The main reason why a notice is given to the Regional Director under Section 394A of the Companies Act is to ensure that the public interest is safeguarded when companies propound a scheme of amalgamation. In the present case, the Regional Director in his affidavit has not stated that the exchange ratio is contrary to public interest. The Regional Director has only stated that the interest of the shareholders of the transferor company is likely to be adversely affected by the exchange ratio. If at all there is undervaluation, then, it is the shareholders of the transferee company, who are benefited. Hence, undervaluation, if any, does not affect any public interest.

20. A similar view was held by the Bombay High Court in Piramal Spinning and Weaving Mills Ltd., In re [1980] 50 Comp Cas 514.

21. It may be stated here, that the transferor company had unanimously approved the scheme of amalgamation and consequently, the exchange ratio before the Calcutta High Court. The Regional Director did not place any objection with regard to the exchange ratio before the Calcutta High Court. The Calcutta High Court by order dated November 25, 2003, approved the scheme of amalgamation. This court is only considering the scheme of amalgamation in so far as it relates to the transferee company. The transferor company is not before this court. Therefore, such objections of the Regional Director is totally misplaced and could not be raised before this court. Such objections could only be raised before the Calcutta High Court.

22. Apart from the aforesaid objection of the Regional Director, no objection has been received from any person, pursuant to the advertisement. It has also been brought to the knowledge of this court that the Calcutta High Court by order dated

November 25, 2003, has approved the scheme of amalgamation with regard to the transferor company. The exchange ratio has been duly approved by the shareholders of the transferor company. Thus, this court, is therefore, not inclined to interfere at the instance of the Regional Director. Even otherwise, I do not find anything in the scheme, which could be said to be detrimental to the interest of any shareholder or creditor of the transferee company or to the public interest.

23. Thus, this court hereby sanctions the scheme of amalgamation as appended as annexure A to this petition and hereby declares the same to be binding on the shareholders and creditors of the transferee namely, Ratan Housing Development Ltd. For this purpose the effective date will be the same as mentioned in the scheme of amalgamation, namely, the date when the certified copy of this order and the order of the Calcutta High Court in respect of the transferor and the transferee company are filed before the concerned Registrar of Companies. It is further ordered that a certified copy of this order shall be filed before the Registrar of Companies within thirty days of the receipt of the certified copy of this order. A formal order in the prescribed form shall be followed as required.

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