



## **Patent Illegality and the Architecture of Arbitral Finality: The Supreme Court's Reaffirmation in *Ramesh Kumar Jain v. Bharat Aluminium Company Limited (BALCO)* bearing Civil Appeal No.15037 of 2025 (Arising out of SLP (C) No.14529 of 2023) decided on 18.12.2025**

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### **Introduction**

The Supreme Court's decision in *Ramesh Kumar Jain v. Bharat Aluminium Company Ltd. (BALCO)*<sup>1</sup>, is a significant reaffirmation of judicial restraint in arbitration and a strong reminder that Sections 34 and 37 of the Arbitration and Conciliation Act, 1996 are not appellate provisions. The judgment revisits and consolidates the law on patent illegality, reappreciation of evidence and the permissible use of quantum meruit (Section 70 of the Contract Act) in arbitral adjudication. In setting aside the decision of Hon'ble High Court of Chhattisgarh with a reasoned arbitral award that had already survived Section 34 scrutiny, the Supreme Court has once again drawn a clear red line between supervisory jurisdiction and appellate review.

### **Factual Matrix in Brief**

BALCO had awarded a contract to the appellant for mining and transporting bauxite. After completion of the original contracted quantity, BALCO requested the appellant to continue supplying additional quantities, expressly stating that rates would be decided later. The appellant supplied nearly 1,95,000 MT of additional bauxite, but disputes arose regarding:

- Extra rate for additional work;
- Additional transportation costs due to load restrictions;
- Loss due to idle machinery and manpower; and
- Delayed payments.

The Sole Arbitrator passed a detailed, reasoned award granting certain claims, partially allowing others and rejecting some. The Commercial Court dismissed the petition of BALCO under Section 34 of the A&C Act. However, the High Court, exercising jurisdiction under Section 37, reappreciated evidence and set aside the award on the ground of 'patent illegality'.

### **The Issue**

Whether interference with the arbitral award by the High Court under Section 37 of the Arbitration and Conciliation Act, 1996 on the ground of patent illegality is sustainable when once the award has been affirmed under section 34 of the Arbitration and Conciliation Act, 1996?

### **The Supreme Court's Reaffirmation of the Arbitration Policy**

The Hon'ble Supreme Court reaffirmed the foundational philosophy of the Arbitration and Conciliation Act, 1996, i.e., minimal judicial intervention and the finality of arbitral awards as given under Section 5 of the Act, which together constitute the backbone of India's modern arbitration regime. The Hon'ble Court reiterated that proceedings under Section 34 do not partake the character of an appeal and that the jurisdiction under Section 37 is even more circumscribed and restrictive in nature. The Hon'ble Court observed that within the tightly confined statutory framework, judicial authorities are not entitled to reassess facts, reappreciate evidence, or

<sup>1</sup> 2025 INSC 1457



substitute their own interpretation merely because an alternative or even a more plausible view is possible. The court drew strength from the consistent line of precedent including *MMTC Ltd. v. Vedanta Ltd.*<sup>2</sup>, *Delhi Airport Metro Express Pvt. Ltd. v. DMRC*<sup>3</sup>, *Hindustan Construction Company Ltd. v. NHAI*<sup>4</sup> and *Associate Builders v. DDA*<sup>5</sup>, the Hon'ble Court reiterated that even an erroneous view on facts or a possible error in contractual interpretation does not, by itself, justify judicial interference. Interference is permissible only when the case falls strictly within the narrow and statutorily circumscribed grounds set out in the Act, such as patent illegality, violation of public policy, or jurisdictional infirmity. In doing so, the Hon'ble Court strengthened the boundary between supervisory review and appellate re-adjudication and cautions against judicial overreach that would undermine the autonomy and efficacy of the arbitral process.

### **Patent Illegality: Not Every Error Qualifies**

A central and particularly consequential contribution of the present decision lies in its careful restatement and consolidation of the concept of 'patent illegality' in the post 2015 amendment landscape. The Hon'ble Court observed and iterated the jurisprudential evolution of this ground which traced its origins from *ONGC v. Saw Pipes*<sup>6</sup>, through its refinement in *Associate Builders v. DDA*<sup>7</sup> and culminating in its post-amendment reconfiguration in *Ssangyong Engineering & Construction Co. Ltd. v. NHAI*<sup>8</sup>. The Hon'ble Court clarified that patent illegality is not a residual category for correcting arbitral errors, but is instead confined to glaring and fundamental defects that strike at the very root of the award's legitimacy. The Hon'ble Court illustrated that such illegality may arise where the arbitral tribunal decides matters beyond the scope of the contract or the reference, where the award is in direct violation of substantive law or the Arbitration Act itself, where the tribunal acts in patent contravention of the express terms of the contract, or where crucial findings are based on no evidence whatsoever, rendering the decision perverse in the strict legal sense. Equally significant is the Court's emphatic reiteration of the negative content of the doctrine by virtue of the proviso to Section 34(2A), both 're-appreciation of evidence' and 'erroneous application of law' are expressly excluded from the ambit of patent illegality. The Hon'ble Court clarified and ruled out any tendency to treat patent illegality as an appellate jurisdiction and reaffirmed its status as a narrow, exceptional and system-preserving ground of interference, designed to correct only those defects that undermine the structural integrity of the arbitral process rather than its merits.

### **'No Evidence' vs 'Some Evidence': The Critical Distinction**

The Hon'ble Court has further given a conceptually significant observation concerning the distinction between findings based on 'no evidence' and those based on 'some evidence', however slender or imperfect such evidence may appear. The Hon'ble Court observed that it is only in the former category where a conclusion is entirely unsupported by any relevant material on record that the award may legitimately be characterised as perverse and thereby susceptible to interference on the ground of patent illegality. Conversely, where there exists some evidentiary substratum, even if the material is sparse, weak, or capable of supporting a competing inference or a reasonable plausible inference, the arbitral determination must remain immune from judicial correction. The Hon'ble Court stated that the position is anchored in the statutory scheme itself, particularly Section 19 of the Arbitration and Conciliation Act, 1996, which deliberately emancipates arbitral proceedings from the rigours of the Indian Evidence Act and accords the tribunal substantial procedural and evidentiary autonomy. Flowing from this the Hon'ble Court reiterated the well-settled principle that the arbitrator is the ultimate master of the quality,

<sup>2</sup> (2019) 4 SCC 163

<sup>3</sup> (2022) 1 SCC 131

<sup>4</sup> (2024) 2 SCC 613

<sup>5</sup> (2015) 3 SCC 49

<sup>6</sup> (2003) 5 SCC 705

<sup>7</sup> *supra*

<sup>8</sup> (2019) 15 SCC 13



quantity and appreciation of evidence. So long as the view adopted by the tribunal is a 'possible view' on the material before it, the supervisory jurisdiction of the courts under Sections 34 and 37 is not attracted, even if the court might have, on the same record, arrived at a different or more persuasive conclusion. Further, the Court observed that to permit interference in such circumstances would be to collapse the carefully maintained distinction between review and appeal and to reintroduce, through the backdoor, a merits-based appellate scrutiny that the arbitration statute consciously and emphatically excludes.

### **Quantum Meruit and Section 70 of the Contract Act: No Rewriting of Contract**

The Hon'ble Supreme Court categorically rejected the one of the errors committed by the Hon'ble High Court in its conclusion that the arbitral tribunal had impermissibly rewritten the contract by awarding an additional sum of Rs.10 per metric tonne for the extra work performed by the claimant. The Hon'ble Supreme Court in doing so, elucidated on the interface between contractual obligations and restitutive remedies. The Hon'ble Court observed *firstly*, that the execution of additional work was never in dispute; *secondly*, the correspondence between the parties unmistakably demonstrated that the price for such additional work had been consciously left open by BALCO to be finalised at a later stage; and *thirdly*, that notwithstanding this, BALCO had enjoyed the full benefit of the work performed. In these circumstances, the Hon'ble Court held that the case falls squarely within the ambit of Section 70 of the Indian Contract Act, 1872, which embodies the principle that a person who enjoys the benefit of a non-gratuitous act is bound to make compensation therefor.

The Court observed that application of quantum meruit or unjust enrichment in such a factual matrix does not amount to a judicial or arbitral rewriting of the contract but rather constitutes a legitimate filling of a contractual vacuum in order to prevent one party from being unjustly enriched at the expense of the other. The Hon'ble Court further elaborated this reasoning by distinguishing *MTNL v. Tata Communications Ltd.*<sup>9</sup> and by pointing out that in that MTNL case the contract fully and exhaustively governed the field, including the question of consideration, whereas in the present case no contractual rate was ever agreed for the additional work, thereby necessitating recourse to restitutive principles. The award of reasonable compensation in such circumstances is thus characterised not as a distortion of the contractual bargain, but as an enforcement of a statutory obligation grounded in equity, good conscience and the prevention of unjust enrichment.

### **Conclusion: Reasserting the Architecture of Arbitral Finality**

The Supreme Court observed that the High Court, in the present case, transgressed the narrow boundaries of Section 37 jurisdiction by effectively converting a statutorily circumscribed supervisory review into a merits-based appellate reassessment. In doing so, the High Court impermissibly reweighed and reanalysed the evidence, recomputed factual conclusions and applied a standard of proof far more exacting than what law of arbitration contemplates. The Hon'ble Court observed that such an approach is not merely erroneous but structurally inconsistent with the statutory design of the Arbitration and Conciliation Act, 1996, which consciously insulates arbitral determinations from judicial second-guessing.

Further, the Hon'ble Court elucidated on the finality of arbitral awards and reiterated the exceptionally narrow compass of 'patent illegality' and the circumscribed the bar against reappreciation of evidence under Sections 34 and 37. The Court reaffirmed the legitimacy of restitutive and quantum meruit claims under Section 70 of the Contract Act within arbitral adjudication. Most fundamentally, the Court reaffirmed the institutional distinction between courts as supervisory guardians of legality and arbitrators as final adjudicators of fact and contractual interpretation.

<sup>9</sup> (2019) 5 SCC 341



In this light, the decision in *Ramesh Kumar Jain v. BALCO* stands as a reaffirmation of India's pro-arbitration jurisprudence. It clarifies that courts must resist the temptation to correct arbitral awards merely because a different or even better view is possible and may intervene only where the award suffers from defects that strike at the very jurisdictional legitimacy, legal integrity, or conscience of the legal system. By restoring the arbitral award and setting aside the High Court's overreach, the Hon'ble Supreme Court has also realigned judicial practice with the legislative intent underlying the 1996 Act and its 2015 amendments, thereby strengthening the credibility, predictability and autonomy of arbitration as a cornerstone of commercial dispute resolution in India.

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