CASE LAW UPDATES

Company Law Important Cases (Part 3): Ultra Vires, Directors' Powers & Corporate Governance

Hanspal Bakul · 14 Aug 2026

A company can only do what its Memorandum permits, and its directors can only use their powers for the company's benefit. These two principles, **the doctrine of ultra vires and the fiduciary duty of directors, sit at the heart of corporate governance in India.** This part of our case series unpacks both through six landmark judgments, moving from the *1875 ruling in Ashbury to the 2021 Tata-Mistry verdict.*

Ashbury Railway Carriage and Iron Co. Ltd. v. Riche (1875) LR 7 HL 653

Facts

Ashbury Railway Carriage and Iron Co. was incorporated under the Companies Act, 1862. Its ***Memorandum limited it to manufacturing railway carriages and mechanical engineering contracts.*** Despite this, the directors signed a contract to finance a railway line in Belgium. When the company backed out, Riche sued for breach.

Issue

Whether a contract signed by directors, but falling entirely outside the company's stated objects, can bind the company.

(A related question arose over whether shareholders could validate such a contract through unanimous ratification.)

Judgment

The House of Lords struck down the contract as ultra vires and void from the start. The Memorandum sets the outer limit of a company's capacity. Nothing outside it can be ratified, not even by every shareholder agreeing together.

This case gave the ultra vires doctrine its foundation in company law, making it a near-certain CLAT PG entry.

Attorney-General v. Great Eastern Railway Co. (1880) 5 App Cas 473

Facts

Great Eastern Railway Company was formed by statute to run a railway line. It later agreed to supply rolling stock and locomotive power to the Southend Railway Company. The Attorney-General challenged this arrangement as exceeding the company's statutory powers.

Issue

Whether an act not expressly authorised by a company's governing statute can still stand as valid.

(This depends on whether the act is ***reasonably incidental to the objects that are authorised.*** *)*

Judgment

The House of Lords upheld the arrangement. **Lord Selborne clarified that the ultra vires doctrine must be applied reasonably, not rigidly. Anything fairly incidental to a company's authorised objects survives scrutiny unless expressly prohibited.**

This ruling softened Ashbury and introduced the ***doctrine of implied powers****, a distinction examiners love to test.*

A. Lakshmanaswami Mudaliar v. Life Insurance Corporation of India, AIR 1963 SC 1185

Facts

United India Life Assurance Company ran a life insurance business. Before this business transferred to LIC under the LIC Act, 1956, shareholders resolved to donate funds to a trust promoting insurance education. LIC later refused to honour this donation and demanded its return.

Issue

Whether a donation sanctioned by shareholders, yet unconnected to the company's stated objects, qualifies as a valid corporate act or remains ultra vires despite shareholder approval.

Judgment

The Supreme Court held the donation ultra vires, since the Memorandum never authorised charitable payments of this kind. Even unanimous shareholder consent could not cure this defect.

The Court reaffirmed Ashbury's logic in the Indian context, which is exactly why examiners pair these two cases in the same question set.

Needle Industries (India) Ltd. v. Needle Industries Newey (India) Holding Ltd., AIR 1981 SC 1298

Facts

Needle Industries had a UK-based holding company as its majority shareholder. To comply with FERA, 1973, the company issued rights shares. Regulatory delays then prevented the holding company from subscribing in time, so Indian shareholders received the shares instead. The holding company alleged oppression.

Issue

Whether allotting rights shares in a manner that dilutes a majority shareholder's stake amounts to oppression.

(Section 397 of the Companies Act, 1956 requires such conduct to be burdensome, harsh, and wrongful.)

Judgment

The Supreme Court found no oppression, since the directors acted without any dishonest motive despite procedural lapses. Still, the Court ordered Indian shareholders to pay the difference between the allotment price and market value under its equitable powers.

This case remains the go-to authority for defining oppression, a term CLAT PG frequently tests without giving a statutory definition.

Dale and Carrington Investment (P) Ltd. v. P.K. Prathapan, (2005) 1 SCC 212

Facts

Prathapan and Ramanujam were shareholders and directors in a company running a hotel business. Without notice to Prathapan or a valid board meeting, Ramanujam allotted extra shares to himself. This move shifted him from minority to majority shareholder, giving him complete control.

Issue

- Whether a director must exercise the power to allot shares only for the proper purpose of raising capital.
- Whether an allotment made purely to grab control can be struck down, even though Section 81 technically excludes private companies.

Judgment

The Supreme Court invalidated the allotment, holding that directors exercise fiduciary power when issuing shares. This power must serve the company's genuine interest, not personal ambition. Additionally , private companies are not exempt from fiduciary responsibilities.

Remember this as the leading case on the ***"proper purpose" doctrine****, a phrase that shows up often in CLAT PG answer options.*

Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd., (2021) 9 SCC 449

Facts

Cyrus Mistry was removed as Executive Chairman of Tata Sons through a Board resolution in October 2016. He then approached the NCLT, alleging oppression and mismanagement. The NCLT rejected his claims, but the NCLAT reversed this decision. It ordered his reinstatement and restricted the powers of Tata Trusts.

Issue

- Whether Mistry's removal amounted to oppression or mismanagement under Sections 241 and 242 of the Companies Act, 2013.
- Whether NCLAT had jurisdiction to order reinstatement, a relief never specifically sought.

Judgment

The Supreme Court restored the NCLT's ruling and set aside NCLAT's order. It held that Mistry's removal reflected a legitimate business decision rooted in a genuine breakdown of trust. NCLAT did not have the jurisdiction because it delivered a relief that the litigants had not sought for , therefore it overreached its statutory powers.

This is the most current entry on our list, and CLAT PG has a clear pattern of testing recent, high-profile Supreme Court rulings.

These six cases, spanning nearly 150 years, reveal a consistent judicial philosophy. Courts protect a company's constitutional boundaries, yet they also guard against directors who twist their powers for personal gain. Together, they map how far a company and its Board can go before crossing a legal line and form a favourite testing ground for company law in CLAT PG.