INTERNATIONAL JOURNAL OF HUMAN RIGHTS LAW REVIEW
An International Open Access Double Blind Peer Reviewed, Referred Journal

Volume 4 | Issue 3 | 2025 Art. 15

Judicial Interpretation and Lifting of the Corporate Veil in India

Mansi Bhatt
LLM Student,
Amity Institute of Advanced Legal Studies, Amity University, Noida

Recommended Citation
Mansi Bhatt, *Judicial Interpretation and Lifting of the Corporate Veil in India*, 4 IJHRLR 199-210 (2025).
Available at www.humanrightlawreview.in/archives/.

Judicial Interpretation and Lifting of the Corporate Veil in India

Mansi Bhatt
LLM Student,
Amity Institute of Advanced Legal Studies, Amity University, Noida

Manuscript Received	Manuscript Accepted	Manuscript Published
08 May 2025	10 May 2025	12 May. 2025

ABSTRACT

The doctrine of corporate personality, which enshrines the concept of a company as a distinct legal entity separate from its shareholders and directors, serves as a cornerstone of corporate jurisprudence. However, this principle is not absolute. The uploaded document explores the evolving judicial approach in India toward lifting or piercing the corporate veil—an exceptional mechanism deployed by courts to look beyond the legal personality of a company and identify the real actors behind its operation. The paper meticulously dissects the Indian judiciary's role in applying this doctrine across diverse legal contexts including fraud, tax evasion, labour disputes, environmental compliance, and public interest matters. Through a detailed examination of landmark Supreme Court decisions—such as Life Insurance Corporation of India v. Escorts Ltd., Delhi Development Authority v. Skipper Construction Co. (P) Ltd., Workmen Employed in Associated Rubber Industries Ltd. v. Associated Rubber Industries Ltd., and others—the document illustrates how courts have reconciled the respect for corporate autonomy with the imperative of justice and accountability. The paper highlights how Indian courts, initially cautious in their application of veil-piercing (inspired by English common law), gradually adopted a more purposive and contextual approach, especially post-economic liberalization in the 1990s. It explains how economic realities are increasingly prioritized over legal formalism in cases involving complex holding structures, shell companies, and multinational entities. The document also outlines specific legal grounds and criteria under which veil-lifting is permissible—such as fraud, evasion of statutory obligations, agency relationships, and public interest—while emphasizing that this extraordinary relief must be exercised judiciously. Overall, the work captures the dynamic *equilibrium courts strive to maintain between corporate freedom and societal accountability, thereby providing a comprehensive doctrinal and case-law-based understanding of this critical aspect of company law.*

KEYWORDS

Corporate, Personality, Veil, Accountability, Jurisprudence

INTRODUCTION

The corporate veil is a metaphorical expression that represents the legal distinction between the company as an independent legal entity and its shareholders or promoters. However, Indian courts have also established exceptions to this doctrine where the veil can be lifted to identify individuals behind the corporate entity for reasons such as fraud, improper conduct, or evasion of legal obligations.

The Indian judiciary has exercised its authority to lift the corporate veil in cases where the corporate structure is misused to perpetrate fraud or to defeat the law. The judiciary's role has been instrumental in interpreting when and how the veil should be lifted. The landmark case of *Life Insurance Corporation of India v. Escorts Ltd.*[1] clarified that while the principle of corporate personality is to be respected, it should not be used as a shield for deceit and fraud.

In *Gilford Motor Co. Ltd. v. Horne*[2], though an English case, its principles have strongly influenced Indian decisions. In this case, the court lifted the veil as the company was formed to evade a non-compete clause. Indian courts have adopted similar reasoning to pierce the veil where the intention behind forming a company was malafide.

The judiciary has also emphasized that the doctrine of lifting the veil must be used sparingly and only in exceptional circumstances. In *Delhi Development Authority v. Skipper Construction Co. (P) Ltd.*[3], the Supreme Court of India held that where a corporate form is used for dishonest and fraudulent purposes, it is the duty of the court to lift the veil and expose the real actors.

Another important case is Workmen Employed in *Associated*

[1] 1985 INSC 251.
[2] [1933] Ch 935.
[3] (1996) 4 SCC 622.

Rubber Industries Ltd. v. Associated Rubber Industries Ltd.[4], where the Supreme Court lifted the corporate veil to ascertain the real employer of the workers. This indicated that courts in India are not only concerned with fraud but also with the social implications of corporate structures.

Indian courts have also lifted the veil in cases involving tax evasion. In *Commissioner of Income Tax v. Meenakshi Mills*[5], the court held that a company cannot be allowed to be used as a vehicle for tax avoidance. The veil was lifted to examine the real nature of the transactions and the individuals behind them.

The judiciary has also applied this doctrine in situations involving public interest. Courts have recognized that the public interest can sometimes justify lifting the veil. In *New Horizons Ltd. v. Union of India*[6], the Supreme Court looked beyond the corporate structure to determine the real parties in control of a company that had bid for a government contract. A recurring judicial observation is that while companies are recognized as separate legal entities, the protection of this separation cannot be extended to circumstances where the company structure is manipulated to deceive third parties or to escape legal liabilities.

However, the lifting of the corporate veil is not automatic and requires the court to be convinced that the circumstances merit such an action. The burden of proof lies on the party alleging the misuse of the corporate form, and the judiciary has often exercised caution in entertaining such claims. The Indian judiciary has played a critical role in interpreting and applying the concept of lifting the corporate veil. It has balanced the need to maintain corporate independence with the imperative of preventing abuse of corporate form, thereby ensuring that justice is served in both commercial and social contexts.

1.1 Evolution of Judicial Approach in India

The judicial approach to the doctrine of the corporate veil in India has undergone significant transformation over time. Initially, Indian courts were largely influenced by English jurisprudence, especially the decision in *Salomon v. Salomon & Co. Ltd.*[7], and were reluctant to disregard corporate personality. Over time, however, the Indian judiciary began to develop a more flexible and

[4] (1985) 4 SCC 114.
[5] (1967) 63 ITR 609 (SC).
[6] 1995 (1) SCC 478.
[7] Beyond Separate Entities: Understanding the Corporate Veil Doctrine *available at* https://www.mmjc.in/beyond-separate-entities-understanding-the-corporate-veil-doctrine/ (last visited on 23rd Feb 2025).

context-based approach.

In the early years post-independence, the Indian judiciary was cautious in lifting the veil and focused on upholding the sanctity of separate legal personality. However, the liberalization of the Indian economy in the 1990s and the resultant increase in corporate fraud and malpractices pushed the courts to take a more proactive stance. They began to evaluate corporate conduct through a lens of accountability and transparency.

With changing economic realities, courts began recognizing the potential misuse of corporate structures. In the *State of U.P. v. Renusagar Power Co.*[8], the Supreme Court recognized that subsidiaries, though separate legal entities, may act as alter egos of the parent company in certain factual contexts, thereby justifying the lifting of the corporate veil.

Further evolution is seen in cases involving environmental and labor rights, where the courts have expanded the grounds for lifting the veil to include socio-economic justice. In such cases, the corporate structure was not allowed to be used as a shield against statutory obligations under labor or environmental laws.

Over time, the courts have evolved from a rigid application of the doctrine to a more purposive and pragmatic interpretation. The guiding principle now is whether the corporate personality is being misused in a way that offends the law or public policy. This shift reflects the Indian judiciary’s growing sensitivity towards equitable justice and regulatory compliance.

The judiciary has also responded to the growth of multinational corporations and complex holding structures by increasingly examining the substance over form. This shift is evident in cases where courts evaluate the control, financial flow, and decision-making authority in corporate groups rather than just examining their legal structure. The use of the doctrine has also expanded in public interest litigation. Courts have accepted the need to lift the veil in public interest cases where the functioning of a company affects large sections of the population, such as in sectors involving natural resources, healthcare, and infrastructure.

The advent of new economic crimes such as money laundering and shell companies has further influenced the judicial approach. Courts have become more vigilant and proactive in exposing the true controllers of such companies. This evolution marks a shift from merely protecting corporate autonomy to ensuring that such

[8] (1988) 4 SCC 59.

autonomy is not misused.[9]

At the same time, Indian courts continue to emphasize that lifting the veil is not to be used lightly. The approach is balanced, with a clear understanding that while the veil can be lifted in appropriate circumstances, the integrity of corporate structure must not be undermined arbitrarily.[10] This evolution in judicial thinking showcases a nuanced balance between respect for corporate autonomy and the need to uphold public interest, prevent fraud, and ensure justice. It represents a matured jurisprudence that adapts to new challenges while maintaining legal consistency.

1.2 Leading Supreme Court Judgments on Lifting the Veil

The doctrine of the corporate veil is a foundational principle of corporate law, providing a legal distinction between the company as an independent legal entity and its shareholders or directors. However, Indian jurisprudence has seen the courts lifting or piercing the veil in exceptional circumstances where the corporate form is misused.[11] The Indian Supreme Court has delivered landmark judgments that have clarified and evolved this doctrine, laying down essential parameters for its application.

One of the earliest and most cited cases in this regard is *Life Insurance Corporation of India v. Escorts Ltd.*[12] In this case, the Supreme Court recognized the separate legal identity of a company but also noted that this distinct personality can be disregarded in cases of fraud or improper conduct. The Court emphasized that lifting the veil is justified when the corporate personality is used to perpetrate fraud or circumvent legal obligations.

In *State of U.P. v. Renusagar Power Co.*[13], the Supreme Court held that the veil of a company may be lifted to examine the relationship between a parent and its subsidiary. The Court analyzed whether the subsidiary was truly independent or merely an alter ego of the parent company. This case marked an important step in recognizing the economic realities behind the corporate structure.

A significant judgment in the context of public interest was *Delhi*

---

[9] The Corporate Personality and Piercing the Corporate Veil *available at* https://www.mbaknol.com/mercantile-law/the-corporate-personality-and-piercing-the-corporate-veil/?utm_source=chatgpt.com (last visited at Feb 18, 2025).
[10] Palmer, F.B., Company Law, 25th ed., Sweet & Maxwell, London, 1992.
[11] Ramaiah, A., Guide to Companies Act, LexisNexis, 2013.
[12] 1986 AIR 1370.
[13] (1988) 4 SCC 59.

Development Authority v. Skipper Construction Co. (P) Ltd.[14], where the Supreme Court lifted the veil to prevent fraud against the public. The Court observed that when a corporate entity is used as a device to circumvent legal obligations or deceive others, especially the public, the veil must be lifted to determine the real actors behind the corporate mask.

The Supreme Court in *Juggilal Kamlapat v. Commissioner of Income Tax*[15] laid down that where a company is a mere sham or façade, and not operating as a true independent entity, the veil may be pierced. This judgment emphasized substance over form and highlighted the relevance of intent and conduct in determining misuse of corporate personality.

In Workmen Employed in *Associated Rubber Industries Ltd. v. Associated Rubber Industries Ltd.* [16], the Court examined inter-corporate transactions and held that if two entities function in tandem with shared management and objectives, lifting the veil is permissible to determine real control and accountability. This ruling was significant in labor law disputes where the employer tried to evade liability.

The case of *New Horizons Ltd. v. Union of India*[17] involved a public-private partnership, and the Court looked behind the corporate entity to assess the credentials and ownership pattern of bidders. This case demonstrated how lifting the veil can serve transparency and accountability in governmental dealings and public procurement.

In *Vodafone International Holdings B.V. v. Union of India*[18], although the Supreme Court initially upheld the separate legal identity of a foreign company, the case sparked a debate on economic substance versus legal form. Though the veil was not lifted in this instance, it laid down important tests for future cases involving cross-border corporate structures.

Another key judgment is *Balwant Rai Saluja v. Air India Ltd.*[19], where the Court refused to lift the veil, stating that it can only be pierced when it is evident that the company is a sham or a conduit for evading law. The Court warned against a blanket approach and emphasized that lifting the veil must be applied cautiously and contextually. In *Standard Chartered Bank v. Directorate of*

[14] (1996) 4 SCC 622.
[15] [1969] 1 SCR 988
[16] (1995) 1 SCC 478.
[17] 1995 SCC (1) 478.
[18] (2012) 6 SCC 613.
[19] 2014 AIR SCW 6387.

Enforcement[20], the Court clarified that a foreign company, despite its distinct identity, could be prosecuted for offenses committed in India. This implied that the corporate veil is not impenetrable when the issue involves public interest, financial regulations, or statutory compliance.

Collectively, these Supreme Court rulings illustrate a judicial balancing act: preserving the sanctity of corporate identity while ensuring that it does not become a tool for fraud, evasion, or injustice. The Indian judiciary, while generally upholding the corporate form, has shown readiness to lift the veil when justice, equity, and the law demand such intervention.[21]

1.3 Criteria and Grounds for Piercing the Veil

The doctrine of lifting or piercing the corporate veil is not applied arbitrarily; rather, the Indian judiciary has developed well-recognized criteria and grounds for invoking this principle. The overarching objective is to ensure that the corporate personality is not misused to subvert justice or public policy. Courts examine the purpose behind the incorporation and the conduct of individuals using the corporate form to assess whether veil-lifting is justified.[22]

One of the primary grounds is fraud or improper conduct. When the corporate entity is used as a façade for engaging in fraudulent activities or evading liabilities, courts are inclined to lift the veil. This principle is rooted in the maxim that no one shall be allowed to benefit from their wrongdoing. [23]The misuse of corporate structure to defraud creditors, evade taxes, or siphon funds forms the classic case for veil piercing. Evasion of statutory obligations is another key ground. If a company is formed or used merely to circumvent legal duties imposed by statute, courts can intervene. For instance, creating a new company to bypass labor laws or environmental norms can invite judicial scrutiny. The judiciary considers such actions as abuse of the corporate form and lifts the veil to hold the real individuals accountable.

The mere act of capitalizing an entity, thus providing a shield of insulation to the principals against personal liability, raises a host of complex and intricate legal questions. It would be exceedingly

[20] (2006) 4 SCC 278.
[21] Beyond Separate Entities: Understanding the Corporate Veil Doctrine *available at* https://www.mmjc.in/beyond-separate-entities-understanding-the-corporate-veil-doctrine/ (last visited on 23rd Feb 2025.
[22] Peircing the corporate veil in India- An Investor Perspective *available at* https://zeus.firm.in/piercing-the-corporate-veil-in-india-an-investor-perspective/? (last visited at Feb 12, 2025).
[23] Securities and Exchange Board of India (SEBI) Act, 1992.

difficult, if not impossible, to concede that a legitimate corporate entity could wholly and completely avoid liability solely due to the circumstance that it was simply not incorporated or registered under the applicable laws of the governing jurisdiction.

Agency or alter ego relationship between companies or between a company and its controlling individuals is also a valid ground. Where a subsidiary acts under the absolute control of a parent company and does not function independently, courts may treat them as one entity. This is often seen in cases of group companies where the operational and financial decisions are taken by the parent, using the subsidiary as a mere front.[24]

Tax evasion and avoidance using corporate vehicles has prompted Indian courts to lift the veil. While tax avoidance may be legal, courts draw the line when corporate structures are created solely for the purpose of avoiding tax without genuine commercial substance. Economic substance and purpose are evaluated to determine if the incorporation is genuine or a sham. Public interest and social justice form strong grounds, especially in matters involving public funds or welfare schemes. Courts have pierced the corporate veil where companies violated human rights, environmental norms, or acted against the interests of the common man. The judiciary emphasizes that public good cannot be sacrificed at the altar of corporate formalism.[25]

In some cases, the beneficial ownership of a company becomes critical. If the real owner uses multiple layers of ownership to hide control and evade responsibility, courts can look beyond the shareholding pattern to identify and fix liability on the actual beneficiaries. This is especially relevant in financial frauds, shell companies, and money laundering cases. Economic realities over legal form are another criterion developed by Indian courts. If the financial transactions and business operations indicate that the company is acting at the behest of its promoters or associated entities, veil-lifting is warranted.

Employment and labor disputes often lead to veil lifting when companies restructure or shift operations merely to avoid statutory dues or employment obligations. When employees are left without recourse due to restructuring strategies, courts examine the continuity of management and control across entities

[24] Lifting Or Piercing The Corporate Veil: Clarifying The Two-Step Examination https://cbcl.nliu.ac.in/company-law/lifting-or-piercing-the-corporate-veil-clarifying-the-two-step-examination/.

[25] Analysis of theory of Corporate Veil *available at:* https://recordoflaw.in/analysis-of-the-theory-of-corporate-veil-lifting/ (Last visited at Jan 26, 2025).

to grant relief.[26]

Corporate group liability is increasingly recognized in India. When multiple companies operate as part of a single economic unit or enterprise, and liabilities are divided among them to limit exposure, the courts may pierce the veil to treat the group as a single entity for the purpose of legal responsibility. Lastly, statutory provisions and judicial discretion also influence veil-piercing. Specific laws like the Companies Act, SEBI regulations, and Income Tax laws have provisions that allow courts or regulatory bodies to lift the corporate veil. Judicial interpretation plays a key role in expanding or limiting the application of such statutory powers.[27]

1.4 *Case Studies: Misuse of Corporate Form and Court Intervention*

The doctrine of corporate veil separates a company from its shareholders, providing a shield that protects individuals from personal liability for corporate actions. However, Indian courts have increasingly encountered cases where this corporate form has been misused, necessitating judicial intervention.[28] Through landmark judgments, the Indian judiciary has developed the jurisprudence of "lifting" or "piercing" the corporate veil to prevent fraud, tax evasion, or other malpractices.

One of the most prominent cases highlighting the misuse of the corporate form is *Delhi Development Authority v. Skipper Construction Company* (P) Ltd., where the Supreme Court disregarded the separate legal personality of a company to hold its directors personally liable for the company's fraudulent acts. The Court emphasized that the corporate form must not be allowed as a cloak for fraud or improper conduct.

Another significant case is *Gilford Motor Co. Ltd. v. Horne*[29], although English has influenced Indian jurisprudence. The Indian courts have relied on this judgment while examining cases involving breach of contractual obligations. In situations where a new company is formed merely to evade a contractual restriction, courts have disregarded the corporate structure. In *Life Insurance Corporation of India v. Escorts Ltd.*, the Supreme Court provided an insightful interpretation of corporate veil doctrine. Although the Court did not lift the veil in this case, it outlined the conditions

[26] (1985) 4 SCC 114.
[27] (2005) 4 SCC 530.
[28] Piercing the corporate veil LLC and Corporation risks available at https://www.wolterskluwer.com/en/expert-insights/piercing-the-veil-of-small-business-what-the-owners-of-llcs-and-corporations-need-to-know.
[29] (1933) 1 Ch 935.

under which such an action would be justified, emphasizing the balance between corporate autonomy and accountability.

The case of *State of U.P. v. Renusagar Power Co.*[30] is also illustrative. The Court lifted the veil to reveal that the wholly-owned subsidiary was not an independent entity but was functioning under the control of the parent company. This case set a precedent in interpreting ownership and control in determining liability.

In *Juggilal Kamlapat v. Commissioner of Income Tax*[31], the court lifted the veil to address issues of tax evasion. The Court declared that the legal form of a company should not be allowed to serve as an instrument to avoid tax obligations. This case reinforced the principle that the veil may be lifted in matters of revenue.

In *Workmen Employed in Associated Rubber Industry Ltd. v. Associated Rubber Industry Ltd.*[32], the Supreme Court disregarded the separate legal entity of the company to safeguard the interests of workmen. The ruling acknowledged the moral responsibility of business owners to workers, even when the legal structure may absolve them.

The Indian judiciary has also addressed group companies and misuse of subsidiaries in *New Horizons Ltd. v. Union of India*. In this case, the Court lifted the corporate veil to expose inter-connected business entities that were presented as distinct for bidding purposes. This exposed manipulation of legal form to gain undue advantage in public tenders.

Through these judicial interventions, Indian courts have reinforced that the corporate veil is not absolute. These case studies demonstrate the judiciary's proactive stance in upholding the ethical foundations of corporate law.[33]

CONCLUSION

The doctrine of lifting the corporate veil represents a crucial judicial tool in the arsenal of Indian company law, balancing the dichotomy between corporate autonomy and equitable justice. While the principle of separate legal personality is essential for

[30] AIR 1988 SC 1737.
[31] 1970 AIR 529.
[32] Piercing the corporate veil LLC and Corporation risks available at https://www.wolterskluwer.com/en/expert-insights/piercing-the-veil-of-small-business-what-the-owners-of-llcs-and-corporations-need-to-know
[33] The Doctrine of Lifting the Corporate Veil: Origin, Evolution, Challenges *available at* https://www.khuranaandkhurana.com/2022/03/03/the-doctrine-of-lifting-the-corporate-veil-origin-evolution-challenges/ (last visited on 28th March 2025).

encouraging investment and entrepreneurship, it cannot be permitted to serve as a camouflage for illegality, fraud, or social injustice. The Indian judiciary, with its evolving jurisprudential stance, has carved out a nuanced and measured approach to veil-piercing—anchored in legal precedent, statutory provisions, and socio-economic realities.

The document underscores that Indian courts, while influenced by foundational English case law such as *Salomon v. Salomon* and *Gilford Motor Co. Ltd. v. Horne*, have developed a distinctly Indian approach that integrates considerations of public interest, regulatory compliance, and moral accountability. The shift from formalism to functionalism is evident in the judiciary's increasing readiness to examine the economic substance of corporate structures, especially in sectors where public welfare, natural resources, or employee rights are at stake.

Notably, the Supreme Court has made it clear that veil-lifting must not be treated as a routine remedy but should be invoked only in exceptional circumstances where the misuse of corporate personality is evident and demonstrable. Courts have emphasized the need for strong factual evidence and the presence of malafide intent or legal evasion to justify disregarding the corporate form.

Thus, the doctrine's application reflects a sophisticated balancing act—protecting genuine business enterprise while exposing and penalizing manipulative or deceptive conduct. In an era marked by financial innovation, global investments, and evolving regulatory frameworks, this jurisprudence serves as a critical safeguard against the misuse of corporate identity. The Indian Legal System legal system's dynamic and adaptive interpretation of veil-lifting doctrine exemplifies its commitment to justice, transparency, and the integrity of the corporate ecosystem.