

# Corporate Veil and Group Liability in India: A Critical Study of the Group of Companies Doctrine

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## Abstract

This study critically examines the doctrines of corporate veil and group liability in India, with a central focus on the evolution and application of the Group of Companies Doctrine. While the principle of separate legal personality remains foundational to company law, modern corporate structures composed of complex group entities have challenged the traditional boundaries of corporate accountability. The research analyses statutory provisions under the Companies Act, 2013, key judicial pronouncements, and comparative international practices to assess how Indian courts balance corporate autonomy with the need to prevent abuse of legal personality. The study finds that although Indian jurisprudence has progressively recognized the doctrine, its application remains inconsistent due to the absence of statutory codification. The paper argues for legislative clarity, stronger corporate governance mechanisms, and a structured judicial framework to ensure fairness, transparency, and legal certainty in regulating corporate group liability.

**Keywords:** Corporate Veil, Group Liability, Separate Legal Personality, Group of Companies Doctrine, Veil Piercing

**JEL Classification:** K22, K12, K13, K20, F23

## 1. Introduction

The concept of corporate personality forms the foundation of modern company law, under which a corporation is regarded as a separate legal entity, distinct from its shareholders and directors, enabling it to own property, enter into contracts, sue, and be sued in its own name, a principle firmly established in *Salomon v. A. Salomon & Co. Ltd* [1897] AC 22, where the House of Lords held that the company had a separate existence from its members (Hannigan, 2018). Flowing from this principle is the doctrine of limited liability, which limits a shareholder's financial exposure to the amount of their investment, thereby encouraging entrepreneurship and investment by reducing personal financial risk (Gower et al., 2016) and supporting efficient capital markets by allowing companies to raise funds without exposing individual investors to unlimited risk (Davies & Worthington, 2020). The corporate veil refers to the legal boundary that separates a company from its shareholders and officers.

However, courts have occasionally "lifted" or "pierced" this veil to impose liability when the corporate structure is misused, particularly in cases of fraud, sham transactions, or evasion of legal duties, as seen in *Prest v. Petrodel Resources Ltd* [2013] UKSC 34. The significance of this doctrine lies in balancing commercial convenience with legal accountability, as while separate legal personality promotes economic efficiency, its unrestrained application can lead to abuse, making veil-piercing an equitable remedy to prevent injustice and misuse of corporate personality (Hannigan, 2018; Ottolenghi, 1990). In modern commerce, the emergence of corporate groups, where a parent company controls multiple subsidiaries, has become increasingly common, allowing for operational specialization, tax optimization, and risk segregation (Blumberg, 2005), but also creating legal and ethical challenges because each entity is treated as a separate legal person despite being economically interdependent (Muchlinski, 2007). Complex multinational groups may use such structures to avoid liability, obscure financial realities, or exploit jurisdictional differences, thereby intensifying the tension between legal separation and economic unity and raising serious questions about fairness and accountability in global corporate governance (Davies & Worthington, 2020). The study of group liability and the Group of Companies Doctrine is therefore essential to address accountability gaps within corporate groups, as this doctrine, which emerged from international arbitration, notably *Dow Chemical v. Isover-Saint-Gobain* [1984] ICC Case No. 4131, recognizes that companies within a group may be bound by an arbitration agreement when they function as a single economic entity, and in corporate law, its relevance lies in reconciling the principle of separate legal personality with the reality of group control and integration, ensuring that corporations do not exploit legal form to evade obligations or harm stakeholders (Muchlinski, 2007; Blumberg, 2005) while promoting fairness, transparency, and corporate accountability in cross-border corporate operations.

## 2. Conceptual Framework

### 2.1 Doctrine of Corporate Veil

The Doctrine of the Corporate Veil is central to company law, encapsulating the idea that a corporation exists as a separate juridical person distinct from its shareholders and directors. This principle enables a company to own property, contract, and bear liability independently (Palmer, 2022). The doctrine provides a protective boundary that safeguards investors from personal exposure to business risks, fostering commercial confidence and economic development (Goode, 2019). However, this veil is not absolute; courts may look beyond it to ensure that the company form is not used to perpetrate injustice or fraud (Mayson, French, & Ryan, 2022).

### 2.2 Piercing the Corporate Veil

The expression “lifting” or “piercing” the corporate veil refers to judicial intervention allowing courts to disregard the company’s separate legal personality in exceptional circumstances (Sealy & Worthington, 2021). Such circumstances include cases involving fraud, evasion of tax or statutory duties, and agency or alter-ego relationships (Ramaiya, 2018). The scope of this doctrine has evolved through both statutory interpretation and judicial precedent, recognizing that the corporate structure must not become a tool for oppression or unlawful advantage (Kraakman et al., 2017). Courts adopt a case-by-case approach, balancing the need for commercial certainty with principles of equity and justice (Dine, 2020).

### 2.3 Legal Personality of Companies under Indian Law

Under Indian company law, the separate legal personality of a company is recognized by Section 9 of the Companies Act 2013, which provides that a company has perpetual succession and a common seal (Singh, 2022). The landmark case *State Trading Corporation of India Ltd v. Commercial Tax Officer* (1963) SCR 103 has reinforced that a company is a distinct legal person even though it is not a citizen. Indian jurisprudence generally upholds the corporate veil but allows it to be pierced when required to prevent tax evasion, fraud, or to protect public interest (*LIC of India v. Escort Ltd.*, 1986 AIR 1370). These judicial developments demonstrate a pragmatic interpretation of corporate personality that aligns with social and economic realities (Ahuja, 2021).

### 2.4 Distinction Between Holding, Subsidiary, and Associate Companies

The Companies Act 2013 (Sections 2(46), 2(87), and 2(6)) defines the relationship between holding, subsidiary, and associate companies. A holding company exercises control over one or more subsidiaries through majority shareholding or board composition. A subsidiary company operates under such control, while an associate company denotes one in which another entity holds significant influence usually not exceeding 50 percent ownership (Majumdar & Kapoor, 2020). These distinctions are vital for corporate governance, financial consolidation, and regulatory compliance (Datta, 2019). They also serve as the legal foundation for understanding group structures and potential liability within corporate networks (Verma, 2022).

## 3. Evolution of the Group of Companies Doctrine

The evolution of the Group of Companies Doctrine reflects the growing complexity of modern corporate structures and international commercial practices. As business operations expanded across borders, traditional notions of strict corporate separateness proved inadequate to address disputes involving integrated corporate groups. This led courts and arbitral tribunals to gradually recognize doctrines that prioritize commercial reality over formal legal structures.

Table 1: Comparative Evolution of the Group of Companies Doctrine

<i>Dimension</i>	<i>Core Insight</i>	<i>Key Impact</i>
<b>International Origin</b>	Developed in international arbitration to bind non-signatories based on implied consent and single economic unit theory (Born, 2014; Lew, 1985; Gaillard & Savage, 1999).	Prevents fragmented dispute resolution within corporate groups

<i>Dimension</i>	<i>Core Insight</i>	<i>Key Impact</i>
<b>Global Judicial Expansion</b>	French courts adopted a flexible approach, while English courts maintained strict separateness; tribunals now balance both views (Karrer, 2011; Blackaby et al., 2023).	Ensures fairness while respecting party autonomy
<b>Indian Adoption</b>	Indian courts apply the doctrine where common intention and direct involvement exist, emphasizing commercial reality (Banerjee, 2014; Pathak, 2022).	Enhances corporate accountability and procedural efficiency
<b>Comparative Perspective</b>	UK follows strict separateness, the US uses flexible equity doctrines, and India adopts a balanced approach (Ferran, 2018; Born & Rutledge, 2021).	Supports jurisdiction-sensitive dispute resolution

The comparative evolution of the doctrine across jurisdictions demonstrates a shift toward balancing legal autonomy with economic substance. While countries differ in the extent of its application, there is a clear global trend toward preventing the misuse of corporate structures. This evolving jurisprudence laid the foundation for the doctrine’s acceptance and further development in India, which is discussed in the next section.

#### **4. Legal Framework in India**

##### **4.1 Provisions under the Companies Act, 2013**

The Companies Act, 2013 provides the primary legal framework for corporate personality in India, replacing the Companies Act, 1956 and aligning with global standards (Rao, 2019). It recognizes separate legal entity status (Section 9) and defines holding, subsidiary, and associate companies (Sections 2(46), 2(87), and 2(6)) (Tiwari, 2020). While the Act promotes transparency and governance, it does not expressly codify the Group of Companies Doctrine, leaving its development to judicial interpretation (Singhvi, 2021).

##### **4.2 Key Provisions on Subsidiaries and Associates**

Section 129(3) mandates consolidated financial statements, reflecting group economic unity (Sharma, 2020). Section 186 regulates inter-corporate loans and guarantees (Mehta, 2021), and Section 212 empowers SFIO investigations. Schedule III strengthens consolidated reporting requirements (Patel, 2022). Together, these provisions prevent misuse of corporate structures.

##### **4.3 Role of Judicial Interpretation**

In *Chloro Controls India (P) Ltd. v. Severn Trent Water Purification Inc.* (2013), the Supreme Court held that non-signatory affiliates could be bound to arbitration when functioning as a single economic unit (Sarkar, 2015). This was reaffirmed in *Cox and Kings Ltd. v. SAP India Pvt. Ltd.* (2021), emphasizing intent and participation (Dasgupta, 2022). These cases gave the doctrine practical legitimacy in Indian law (Mukherjee, 2022).

##### **4.4 Interaction with Corporate Governance Norms**

The doctrine supports corporate governance by promoting transparency and accountability and preventing misuse of corporate personality (Narain, 2020). SEBI (LODR) Regulations, 2015 mandate disclosure of related-party and inter-company transactions (Chopra, 2021). This integration strengthens accountability and aligns Indian practices with global standards (Deshmukh, 2023).

#### **5. Judicial Trends in India**

Indian courts have significantly shaped the Group of Companies Doctrine and veil-piercing principles. In *Life Insurance Corporation of India v. Escorts Ltd.* (1986 AIR 1370), the Supreme Court affirmed the separate corporate personality while

allowing veil-piercing in exceptional cases to prevent abuse (Bhattacharya, 2019). A significant shift occurred in *Chloro Controls India (P) Ltd. v. Severn Trent Water Purification Inc.* (2013) 1 SCC 641, where the doctrine was formally adopted, and non-signatories were allowed to be bound by arbitration agreements (Gupta, 2014). The doctrine was reaffirmed in *Cox and Kings Ltd. v. SAP India Pvt. Ltd.* (2021 SCC OnLine SC 329), which clarified its application (Kumar, 2022). Similarly, in *ONGC Ltd. v. Discovery Enterprises Pvt. Ltd.* (2022 SCC OnLine Del 4502), the Delhi High Court extended arbitration obligations to closely related entities involved in transactions (Ramanathan, 2023). These rulings reflect a progressive and globally aligned judicial approach.

Indian courts apply the doctrine based on: a direct link between the non-signatory and the contract; participation in negotiations or performance; clear intent to bind the entity; and the existence of a single economic unit (Tripathi, 2021). This approach balances contractual consent with commercial reality, ensuring fairness while respecting corporate separateness (Bansal, 2023).

**5.1 Lifting the Corporate Veil in Cases of Fraud, Sham, and Tax Evasion**

Indian courts have long acknowledged that corporate personality cannot be used as a shield for fraud or evasion. In *Delhi Development Authority v. Skipper Construction Co. (P) Ltd.* (1996 AIR 2005 SC 2005), the Supreme Court pierced the corporate veil where a group of companies was used to defraud property buyers and evade regulatory sanctions (Joshi, 2018). Similarly, in *Juggilal Kamlapat v. Commissioner of Income Tax* (1969 AIR 932 SC), the Court lifted the veil to reveal the economic reality of a tax-avoidance scheme, ensuring that taxation aligned with substance over form (Mehrotra, 2020). More recently, in *Balwant Rai Saluja v. Air India Ltd.* (2014) 9 SCC 407, the Supreme Court emphasized that veil-piercing is justified only in exceptional circumstances, such as fraud, façade, or evasion of obligations (Naik, 2021). These cases collectively affirm that the corporate veil is not impenetrable; it may be lifted when the entity’s separate existence is exploited for illegitimate purposes, but must otherwise be respected to uphold economic stability and legal certainty (Chakraborty, 2022).

**5.2 Case Law Analysis and Evolving Principles**

Indian courts have progressively refined their approach to corporate group liability through evolving case law. This judicial development reflects a shift toward balancing formal corporate structures with commercial and equitable realities.

**Table 2: Case Law Analysis and Evolving Principles**

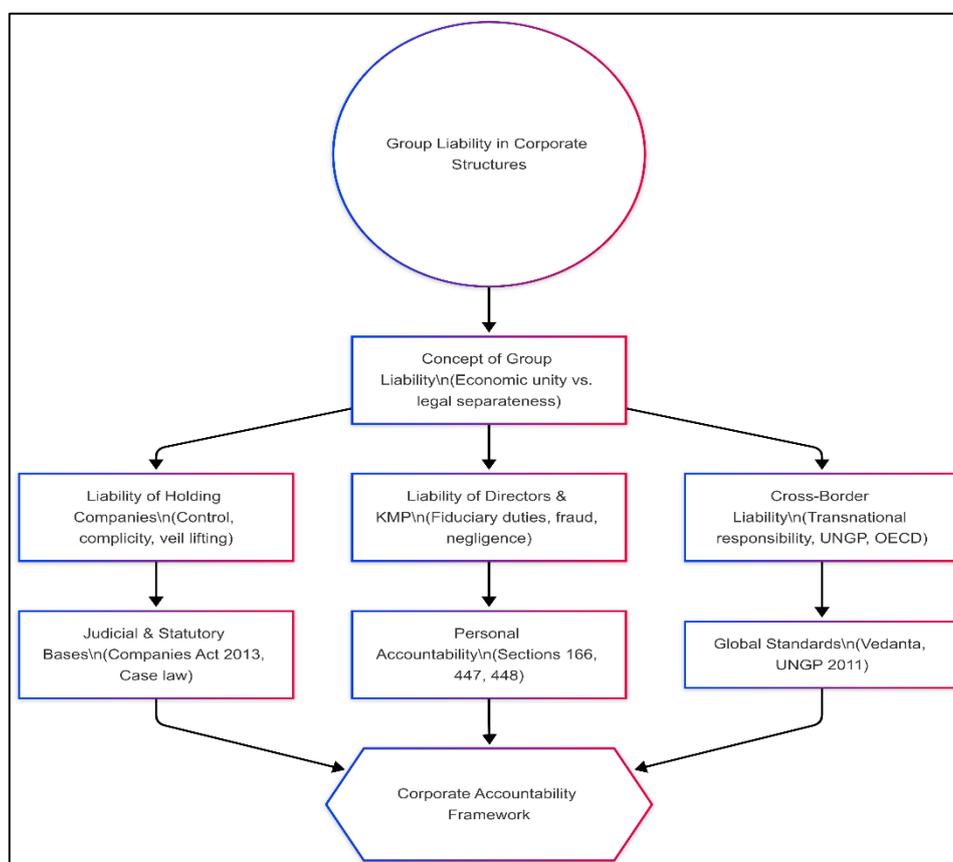
<i>Aspect</i>	<i>Judicial Trend / Principles</i>	<i>Key Case References</i>	<i>Core Impact</i>
Shift in Judicial Approach	Movement from rigid formalism to a contextual and purposive interpretation of corporate personality	General evolution in Supreme Court jurisprudence	Greater flexibility in applying doctrines of corporate veil and group liability
Piercing the Corporate Veil	Courts increasingly pierce the veil in cases involving fraud and misuse of corporate structure	Veil-piercing jurisprudence in fraud-related cases	Enhances corporate accountability and discourages abuse of legal personality
Extension of Arbitration Agreements	Recognition that non-signatory group companies may be bound under the Group of Companies Doctrine	<i>Ameet Lalchand Shah v. Rishabh Enterprises</i> (2018) 15 SCC 678	Strengthens enforcement of arbitration agreements within corporate groups
Functional Interpretation of Corporate Groups	Emphasis on economic reality rather than strict legal form in analysing group relationships	<i>Cheran Properties Ltd. v. Kasturi and Sons Ltd.</i> (2018) 16 SCC 413	Promotes commercially realistic dispute resolution (Vyas, 2022)
Recognition of Single Economic Entity	Acceptance that corporate groups often function as integrated economic units	Recent Supreme Court jurisprudence	Supports flexible legal responses to complex group structures (Reddy, 2023)

<i>Aspect</i>	<i>Judicial Trend / Principles</i>	<i>Key Case References</i>	<i>Core Impact</i>
Hybrid Model of Indian Jurisprudence	Balance between sanctity of incorporation and equitable doctrines	Cumulative judicial developments	Ensures justice while preserving corporate autonomy in commercial contexts

The table demonstrates how Indian jurisprudence has adopted a functional and context-driven approach to corporate relationships. This evolution has strengthened accountability while maintaining respect for the principle of separate legal personality.

### 6. Group Liability in Corporate Structures

Group liability recognizes that a parent company and its subsidiaries often function as a single economic unit, despite being separate legal entities (Thompson, 2018). It arises from corporate control and economic integration, creating shared responsibility for obligations and misconduct within the group (Muchlinski, 2019). Although the Companies Act, 2013 does not expressly provide for group liability in India, courts have applied principles such as lifting the corporate veil and the Group of Companies Doctrine to ensure accountability where justice requires it (Patel, 2021).



*Source: Author's compilation*

**Figure 1: Interrelationships within Group Liability in Corporate Structures**

#### 6.1 Liability of Holding Companies

Holding companies can be held liable for subsidiary actions when there is direct involvement, control, or complicity. Although Indian law follows separate legal entity principles, courts have applied exceptions under Sections 129(3) and 212

of the Companies Act, 2013 (Menon, 2020). Judicial willingness to pierce corporate group boundaries is reflected in *Union of India v. Azadi Bachao Andolan* (2004) 10 SCC 1 (Ghosh, 2020) and *Balwant Rai Saluja v. Air India Ltd.* (2014) 9 SCC 407, particularly where pervasive control is exercised (Desai, 2021). Internationally, the UK case of *Chandler v. Cape plc* [2012] EWCA Civ 525 recognized parent company liability for direct oversight (Parkinson, 2021).

**6.2 Liability of Directors and Key Managerial Personnel**

Directors and KMPs can face personal liability for fraud, misstatements, and breach of duty under Sections 166, 447, and 448 of the Companies Act, 2013 (Bhattacharjee, 2021). In *Official Liquidator v. P.A. Tendolkar* (1973 AIR 1104), directors were treated as trustees of company assets, making them liable for negligence or complicity (Ravi, 2020). SEBI regulations also allow sanctions for fraudulent practices and insider trading by directors and KMP (Iyer, 2022). These rules establish dual accountability for both individuals and corporate entities.

**6.3 Cross-Border Group Liability Issues**

Cross-border corporate groups create complex liability challenges due to differing legal regimes and enforcement standards (Backer, 2022; Raman, 2021). While there is no unified global framework, instruments such as the UN Guiding Principles on Business and Human Rights (2011) and the OECD Guidelines (2011) have strengthened norms of responsibility (Reisch, 2020). The case *Vedanta Resources Plc v. Lungowe* [2019] UKSC 20 confirmed that parent companies may owe duties of care for overseas harms where significant control exists (Foster, 2021), highlighting the need for future legal reforms in India.

**7. Critical Analysis of the Doctrine**

The Group of Companies Doctrine (GCD) is valued for its flexibility in addressing modern corporate realities by allowing courts and tribunals to hold non-signatory group companies accountable where they are materially involved in contracts (Choudhury, 2021). It promotes substantive justice by preventing parent or affiliate companies from evading obligations through corporate formalism (Garg, 2020). However, the doctrine suffers from lack of codification, creating legal uncertainty and unpredictability for businesses and investors (Sinha, 2022). Its dependence on judicial discretion and inferred consent also raises concerns about inconsistency and overreach (Bhat, 2021).

Indian jurisprudence reflects doctrinal inconsistency, with courts alternating between strict corporate separateness and enterprise liability. While *Chloro Controls* (2013) and *Cox and Kings* (2021) supported the doctrine, later decisions have applied it inconsistently (Basu, 2022). In *Reckitt Benckiser (India) Pvt. Ltd. v. Reynders Label Printing India Pvt. Ltd.* (2019 SCC OnLine Del 8294), the Delhi High Court refused to apply the doctrine, highlighting factual distinctions (Nanda, 2023). This divergence, along with unresolved tensions between contract law and company law principles, has resulted in fragmented and unclear jurisprudence (Mehra, 2021).

**7.1 Challenges in Balancing Corporate Autonomy and Creditor Protection**

The application of the Group of Companies Doctrine presents significant practical and legal challenges, particularly in balancing the principles of corporate autonomy with the need to protect creditors. Courts often face difficulties in deciding when to uphold corporate separateness strictly and when to intervene to prevent misuse of group structures. The following table highlights the key challenges, their implications, and the judicial balancing required.

**Table 3: Balancing Corporate Autonomy and Creditor Protection (GCD)**

<i>Key Challenge</i>	<i>Issue Explained</i>	<i>Impact on Stakeholders</i>	<i>Required Judicial Approach</i>
Corporate Autonomy vs. Creditor Protection	Strict corporate separateness can shield shareholders but may encourage asset shifting and judgment-proofing through subsidiary structures (Verghese, 2020).	Creditors face higher risk of non-recovery while shareholders enjoy strong liability protection.	Courts should intervene only when group structures are used for fraud, sham, or legal evasion.

<i>Key Challenge</i>	<i>Issue Explained</i>	<i>Impact on Stakeholders</i>	<i>Required Judicial Approach</i>
Risk of Over-Expansion of GCD	Broad application of the Group of Companies Doctrine can undermine the predictability of limited liability (Chatterjee, 2019).	Investors may be discouraged due to legal uncertainty and perceived higher risks.	Maintain a balanced approach that respects legitimate business organization and risk allocation.
Legal Certainty vs. Equitable Accountability	Achieving fairness while preserving legal certainty remains difficult in complex group structures.	Businesses seek stability, while creditors seek stronger enforcement protections.	Calibrate veil-lifting carefully to ensure accountability without harming commercial confidence.

The table illustrates that the effective application of the doctrine depends on judicial restraint and precision. A carefully calibrated approach is necessary to prevent abuse of corporate structures without undermining legitimate business autonomy and investor confidence. Achieving this balance is essential for maintaining both legal certainty and equitable justice in corporate group liability cases.

**7.2 Impact on Business Certainty and Investment Climate**

Uncertainty surrounding the GCD’s scope has significant implications for India’s business environment. Investors and multinational corporations rely on the principle of limited liability to assess risk exposure. Frequent or inconsistent application of the doctrine could discourage foreign investment by introducing unpredictability into cross-border commercial arrangements (Dutta, 2022). However, when applied judiciously, the doctrine can enhance investor confidence by promoting transparency and deterring misuse of corporate structures (Gopal, 2021). The key lies in doctrinal precision ensuring that the doctrine strengthens fairness and accountability without eroding the legal certainty necessary for economic growth.

**8. Comparative Perspectives**

**8.1 Position in the United Kingdom**

The United Kingdom maintains a strict approach to separate corporate personality, as established in *Salomon v. Salomon & Co. Ltd.* [1897] AC 22 and reaffirmed in *Adams v. Cape Industries plc* [1990] Ch 433. UK courts are reluctant to pierce the corporate veil, doing so only in cases involving fraud, sham, or evasion of legal obligations (Davies, 2020).

While the GCD has not been judicially recognized in the UK, doctrines like agency, estoppel, and assumption of responsibility serve similar functions in specific contexts (Mayson, 2022). The English approach thus prioritizes predictability and autonomy over enterprise liability, reflecting a conservative corporate philosophy (Jones, 2021).

**8.2 Position in the United States**

The United States adopts a more substantive and flexible approach through doctrines such as “piercing the corporate veil” and “alter ego liability.” U.S. courts focus on factors like domination, undercapitalization, and misuse of control to determine whether to disregard corporate separateness (Thompson, 2018).

In cases such as *United States v. Bestfoods* (1998) 524 U.S. 51, the Supreme Court recognized parent company liability where the parent actively managed the subsidiary’s operations. Similarly, federal courts have extended contractual and tort liability across group entities when justice so requires (Blumberg, 2019). This reflects a policy-oriented approach that balances corporate freedom with deterrence of misconduct.

### **8.3 International Best Practices**

Globally, jurisdictions such as France, Canada, and Australia have developed hybrid models of group responsibility that combine statutory definitions with judicial flexibility. The French “single economic unit” principle allows liability to extend across affiliated entities when economic interdependence and control are evident (Vogel, 2020).

At the international level, instruments like the UN Guiding Principles on Business and Human Rights (2011) and the OECD Guidelines for Multinational Enterprises (2011) have emphasized corporate responsibility across global supply chains (Cragg, 2021). These frameworks promote a unified approach to corporate accountability beyond borders.

## **9. Impact and Practical Implications**

### **9.1 Effect on Corporate Governance**

The GCD reinforces corporate governance by deterring misuse of group structures and promoting accountability among parent and subsidiary entities. It aligns with the objectives of the Companies Act, 2013, and SEBI governance codes by demanding transparency in inter-company relationships (Joshi, 2020). However, overexpansion of the doctrine may dilute corporate boards' autonomy, leading directors to become overly cautious in legitimate decision-making (Krishnan, 2021).

### **9.2 Implications for Mergers and Acquisitions**

The doctrine significantly influences mergers and acquisitions (M&A) by affecting due diligence, risk assessment, and liability structuring. In cross-border M&A, the potential for extended liability under the GCD necessitates enhanced scrutiny of subsidiary obligations and non-signatory contracts (Menon, 2022). Strategic planners must therefore anticipate possible veil-piercing risks, particularly in regulated sectors such as finance, telecom, and energy (Sharma, 2023).

### **9.3 Impact on Creditors, Minority Shareholders, and Stakeholders**

For creditors, the doctrine offers protection by enabling recourse against parent or affiliate entities when subsidiaries are insolvent or undercapitalized (Nayak, 2021). For minority shareholders, it enhances transparency by exposing intra-group transfers and related-party transactions that may undermine minority interests (Kapoor, 2022). However, excessive reliance on the doctrine could undermine the predictability of creditor rights and complicate insolvency proceedings, especially under the Insolvency and Bankruptcy Code, 2016 (Deshmukh, 2021). Therefore, a careful equilibrium between stakeholder protection and corporate stability remains essential.

### **9.4 Regulatory and Compliance Challenges**

Implementation of the GCD raises several regulatory challenges, including defining liability boundaries and ensuring effective enforcement across jurisdictions. Regulatory bodies like SEBI, MCA, and RBI must coordinate oversight of group companies to prevent regulatory arbitrage (Saxena, 2022). Additionally, cross-border enforcement remains difficult, as India lacks comprehensive treaties on the recognition of corporate judgments. Harmonization with international compliance standards could strengthen India's global competitiveness and corporate accountability (Narula, 2023).

## **10. Challenges and Contemporary Issues**

One of the major challenges in the application of the Group of Companies Doctrine (GCD) is the abuse of corporate structures to evade liability or regulatory oversight. Corporate groups are often designed to fragment ownership and control, creating layers of subsidiaries that obscure accountability (Banerjee, 2020). This complexity allows dominant parent companies to manipulate subsidiaries as mere instruments while shielding themselves from direct legal or financial repercussions. The use of multi-jurisdictional entities further complicates enforcement, as different legal regimes interpret corporate separateness differently (Krishna, 2021). Courts are increasingly vigilant in detecting such misuse, particularly in cases involving fraudulent transactions, siphoning of funds, or evasion of statutory obligations. Yet, the lack of a clear legal framework leaves room for inconsistency and selective application.

### **10.1 Shell Companies and Money Laundering Concerns**

Shell companies' entities without active business operations or substantial assets pose significant challenges to financial transparency. They are frequently used as conduits for money laundering, tax evasion, and fund diversion, often within group structures (Mehta, 2021). According to the Enforcement Directorate (ED) and Financial Intelligence Unit (FIU-IND), many shell entities are created within corporate groups to route illicit funds domestically and internationally (Rao, 2022). The Prevention of Money Laundering Act, 2002 (PMLA) and Benami Transactions (Prohibition) Act, 1988 have been invoked to trace beneficial ownership and pierce through fictitious entities. However, without specific statutory mechanisms to address group-level complicity, enforcement remains piecemeal and reactive (Kaur, 2023).

### **10.2 Evolving Nature of Corporate Frauds**

The modern corporate landscape has witnessed the rise of sophisticated and technology-driven fraud, including round-tripping, accounting manipulation, and digital misreporting. Corporate frauds like *Satyam Computer Services Ltd. v. Union of India* (2009) highlighted the failure of traditional oversight mechanisms to detect intra-group manipulations (Deshmukh, 2020). Emerging technologies such as cryptocurrency transactions, shadow banking, and complex financial derivatives further obscure group transactions, making regulatory detection more difficult (Sharma, 2021). The evolving nature of such frauds necessitates a dynamic legal response that integrates corporate, criminal, and financial laws within a unified enforcement framework.

### **10.3 Need for Statutory Clarity**

A recurring issue in Indian corporate jurisprudence is the absence of statutory clarity regarding the Group of Companies Doctrine and group liability. The Companies Act, 2013, remains silent on the doctrine, leaving its interpretation to judicial discretion (Tandon, 2022). This uncertainty creates risks for investors, directors, and regulators alike, as decisions depend heavily on case-specific reasoning.

Codifying the doctrine similar to legislative models in the EU and Australia would promote consistency and legal certainty (Fernando, 2021). Statutory guidance on the scope of parent company liability, cross-border enforcement, and criteria for veil lifting could help align India's framework with international standards.

## **11. Suggestions and Recommendations**

There is a strong need to codify the Group of Companies Doctrine through legislative reforms to clearly define the criteria for invoking group liability, the scope of responsibility, and procedural safeguards, thereby ensuring legal certainty and reducing judicial subjectivity (Mukhopadhyay, 2023). Courts should follow a structured framework that examines control, participation, equitable considerations, and proportionality to promote consistent judicial application (Nair, 2022). Corporate governance must be strengthened through enhanced disclosures, mandatory group-level audits, and director accountability mechanisms, with independent directors playing a proactive role in oversight (Khatri, 2021; Gowda, 2023). Regulators should adopt coordinated oversight through inter-agency collaboration, create a central registry of corporate groups, align domestic standards with international guidelines, and enhance cross-border cooperation to improve transparency and enforcement (Patel, 2023).

## **Conclusion**

The principle of separate legal personality remains a cornerstone of corporate law in India; however, the practical realities of modern corporate groups have exposed its limitations when misused to evade legal and financial responsibility. The Group of Companies Doctrine has emerged as a vital judicial tool to bridge the gap between legal form and economic substance, enabling courts to impose accountability where corporate structures function as a single economic unit. Indian courts have made significant progress through landmark rulings, yet the absence of explicit statutory recognition has resulted in inconsistency and legal uncertainty. This study concludes that the future effectiveness of group liability in India depends on clear legislative intervention, harmonization with global best practices, and the development of a consistent judicial framework. Codification of the doctrine, strengthened corporate governance standards, and enhanced regulatory coordination are essential to prevent abuse of corporate structures while preserving commercial certainty. A balanced

approach that respects corporate autonomy while enforcing equitable accountability will be crucial for ensuring sustainable corporate governance and investor confidence in India's evolving business environment.

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