

Reaffirming Mutual Consent and Fairness in Arbitration: A Case Note on *Matsya Fincap Pvt. Ltd. v. Govind Lal*

Background

The judgment in *Matsya Fincap Pvt. Ltd. v. Govind Lal*¹ was delivered by the Delhi High Court ("**Court**") in an Execution First Appeal preferred by Matsya Fincap Pvt. Ltd. ("**Matsya Fincap**") challenging an order whereby the District Judge declined to enforce an *ex-parte* arbitral award dated 22 October 2022 ("**Award**"). The Award was passed by sole arbitrator awarding a sum of INR 10,00,000/- along with interest against Govind Lal ("**Respondent**"), predicated upon an acknowledgement letter dated 16 September 2020 ("**Acknowledgement Letter**"). The Acknowledgement Letter recorded the Respondent as a guarantor of loans availed by a list of third-party borrowers and contained an arbitration clause providing that all disputes would be resolved by a named sole arbitrator. The Acknowledgement Letter bore the signature of the Respondent but not of Matsya Fincap. The core question before the Court was whether a document signed by only one party can constitute a valid arbitration agreement under Section 7 of the Arbitration and Conciliation Act, 1996 ("**Act**") and whether, in the absence of a valid arbitration agreement the executing court was entitled to entertain an objection to the enforceability of the Award under Section 47 of the Code of Civil Procedure, 1908 ("**CPC**").

During the execution proceedings the Respondent filed objections challenging the maintainability of the proceedings on the ground that no valid arbitration agreement existed between the parties. The District Judge upheld these objections and held that the absence of Matsya Fincap's signature on the Acknowledgement Letter rendered it insufficient to constitute a written arbitration agreement under Section 7 of the Act, rendering the Award a nullity. Aggrieved thereby, Matsya Fincap preferred an appeal before the Court.

Matsya Fincap contended that the arbitral proceedings were validly initiated on the basis of the Acknowledgement Letter and that even assuming it did not bear its signature, the existence of an arbitration agreement could be made out under Section 7(4)(b) of the Act through exchange of letters or other means of communication providing a record of the agreement. It was contended that any challenge to the Award ought to have been raised vide an application under Section 34 of the Act and not before the executing court under Section 47 of the CPC. The

¹ Matsya Fincap Pvt. Ltd. v. Govind Lal, 2026 SCC OnLine Del 2629

Respondent countered that in the absence of a valid arbitration agreement the sole arbitrator lacked jurisdiction, the Award was a nullity and the objection to its enforceability was rightly entertained under Section 47 of CPC.

Analysis

The Court examined Section 7 of the Act and held that two elements are indispensable for a valid arbitration agreement, namely the existence of *consensus ad idem* between the parties to refer disputes to arbitration and a written agreement evidencing such consensus in one of the three modes prescribed under Section 7(4). The requirement of writing is not a mere formality but a substantive safeguard ensuring certainty and mutuality in the parties' intention to submit disputes to a private forum.

Since the Acknowledgement Letter bore only the Respondent's signature and not that of Matsya Fincap, it did not satisfy the requirement under Section 7(4)(a) of the Act. The invocation of Section 7(4)(b) was equally rejected as no letters, emails or electronic correspondence providing a record of mutual agreement to arbitrate had been placed on record. The Court held that in the absence of signatures, clear and cogent material evidencing acceptance of the terms through exchange of communications or unequivocal conduct was necessary to establish mutual assent and since no such material existed, the Acknowledgement Letter remained a unilateral document incapable of constituting a valid arbitration agreement. The Court noted that the sole arbitrator had proceeded on the erroneous assumption that the Acknowledgement Letter bore the signatures of both parties, and held that jurisdiction assumed on such an assumption could not be sustained.

On the question of Section 47 of the CPC, the Court held that while the power of an executing court is narrow and does not permit re-appreciation of evidence or examination of merits, an objection to enforceability is maintainable where the award is a nullity on account of inherent lack of jurisdiction. Since the sole arbitrator's jurisdiction was founded entirely upon an invalid arbitration agreement, the Award was held to be a nullity and the objection before the executing court was rightly entertained.

On the constitution of the arbitral tribunal, the Court noted from the Trial Court Record that the same sole arbitrator had been appointed by Matsya Fincap across a series of similar proceedings against multiple borrowers. The Court held that party autonomy cannot be

construed to permit one party to unilaterally structure the constitution of the arbitral tribunal, and since the arbitration clause designating the named arbitrator was contained in a document not signed by Matsya Fincap and whose execution was disputed by the Respondent, the pre-designation of the arbitrator could not be treated as a product of mutual agreement. While the Court refrained from returning a definitive finding of statutory ineligibility under Section 12(5) of the Act in the absence of specific material on the frequency and nature of such appointments, it held that the pattern of repeated appointments of the same sole arbitrator reinforced the conclusion that the constitution of the tribunal lacked the necessary indicia of independence and neutrality. The Court accordingly upheld the order of the District Judge and dismissed the appeal.

Conclusion

The judgment in *Matsya Fincap Pvt. Ltd. v. Govind Lal* reaffirms that arbitration being a consensual dispute resolution mechanism cannot exist in the absence of clear and demonstrable mutual assent. The requirements under Section 7 of the Act are substantive safeguards ensuring certainty and legitimacy in the arbitral process and a unilateral document containing an arbitration clause unsupported by signatures or correspondence or any contemporaneous evidence of acceptance cannot constitute a binding arbitration agreement.