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Minority Squeeze-Outs in India: Balancing Majority Control, Fair Exit and Minority Shareholder Protection

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ABSTRACT

This article examines how Indian company law regulates the compulsory removal of minority shareholders and whether the existing safeguards secure a fair exit. It argues that squeeze-outs are legitimate and often commercially useful, but that their fairness depends on the process by which the minority is removed, particularly valuation, disclosure and tribunal oversight. Using a doctrinal method, the article analyses the statutory routes under sections 66, 235 and 236 of the Companies Act, 2013, the associated valuation rules, and the judicial approach in leading decisions of the Supreme Court and High Courts, including the Supreme Court's March 2026 ruling on selective capital reduction. It then compares the Indian position with the squeeze-out and sell-out regimes of the United Kingdom and the European Union and with the appraisal remedy under Delaware law. The article finds that Indian law has moved beyond a simple majority-versus-minority model, but that its safeguards are dispersed across different provisions with uneven standards of valuation, disclosure and review, so that the protection a minority receives depends heavily on the route the controlling shareholder chooses. It concludes that India should not prohibit squeeze-outs, but should consolidate minority protection through independent and transparent valuation, meaningful disclosure of valuation methodology, a majority-of-the-minority safeguard, a dedicated valuation-challenge mechanism, stronger sell-out rights and continued substantive judicial scrutiny.

Keywords: *Minority Shareholders, Squeeze-Out, Fair Exit, Companies Act 2013, Valuation, Capital Reduction, Majority Rule, Corporate Governance*

I. INTRODUCTION

Company law is built around a practical reality: a company cannot function if every corporate decision requires the consent of every shareholder. Majority rule therefore remains central to corporate decision-making. At the same time, majority power becomes problematic when it is used to force shareholders with little or no bargaining power to surrender their investment. The tension becomes particularly visible in a minority squeeze-out, where the majority or

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controlling shareholders acquire, or facilitate the acquisition of, the remaining shares held by minority shareholders.

A squeeze-out is not inherently abusive. Removing a small and dispersed minority can reduce compliance costs, simplify ownership, and allow a company to operate without the continuing difficulties associated with fragmented shareholding. The difficulty lies elsewhere. A minority shareholder who is compelled to exit cannot simply wait for a better buyer or negotiate the price on equal terms. The value of the exit therefore depends heavily on the legal safeguards surrounding the transaction, particularly valuation, disclosure, procedure and access to judicial review.

Indian company law recognises more than one route through which minority shareholders may be removed. Sections 235 and 236 of the Companies Act, 2013 provide specific mechanisms for compulsory acquisition and purchase of minority shareholding, while selective reduction of capital under section 66 and arrangements under section 230 can also result in minority shareholders being taken out of a company.¹ The framework is therefore not absent; the problem is that the safeguards are spread across different provisions and operate differently depending on the structure of the transaction.

This article argues that Indian law has moved beyond a simple majority-versus-minority model, but has not yet developed a sufficiently coherent framework for protecting minorities during forced exits. The central issue is not whether squeeze-outs should be permitted. They should. The real question is whether the law provides a sufficiently reliable process to ensure that the majority's legitimate interest in achieving corporate efficiency does not become an opportunity to transfer value from the minority to the controlling shareholders.

The Supreme Court's decision of 10 March 2026 in *Pannalal Bhansali v. Bharti Telecom Ltd.* makes this question particularly relevant. The judgment concerned a selective reduction of share capital under section 66 and considered questions of valuation, disclosure, fairness and the treatment of minority shareholders.² Although the Court ultimately upheld the transaction, its reasoning provides useful guidance on the standard of scrutiny that should apply when shareholders are forced out.

The article therefore examines India's statutory framework, the judicial approach to squeeze-outs, comparative safeguards in other jurisdictions and the reforms that could make India's regime more balanced.

¹ Companies Act, No. 18 of 2013, INDIA CODE (2013), §§ 66, 230, 235–36.

² *Pannalal Bhansali v. Bharti Telecom Ltd.*, 2026 INSC 213, ¶¶ 1, 29–33, 38–48 (India).

II. UNDERSTANDING THE SQUEEZE-OUT PROBLEM

A minority shareholder is not merely a shareholder with fewer shares. In a concentrated ownership structure, a minority investor may have little practical ability to influence management, block resolutions or negotiate with the controlling shareholder. This creates an inherent imbalance in bargaining power.

The traditional principle of majority rule is associated with *Foss v. Harbottle*, where the English courts established that the company is generally the proper party to complain about wrongs done to it and that courts should ordinarily respect decisions taken through the corporate majority.³ The principle remains important because corporate decision-making cannot function if every disagreement by a minority shareholder becomes a basis for judicial intervention.

However, majority rule has never been an absolute rule. Corporate law has gradually developed exceptions where majority power is exercised fraudulently, oppressively or in a manner that unfairly prejudices minority interests. Indian company law reflects the same tension through sections 241 and 242 of the Companies Act, 2013, which provide remedies against oppression and mismanagement, subject to the statutory requirements for invoking those provisions.⁴

A squeeze-out sits directly within this tension. The majority needs a mechanism to consolidate ownership, but the minority is being deprived of an investment without necessarily agreeing to the transaction. This makes the fairness of the exit particularly important.

The question should therefore not simply be whether the majority crossed the statutory threshold. A better approach is to ask whether the process leading to the exit was transparent, whether the minority had adequate information, whether the valuation was independently determined and whether the consideration offered was reasonably fair in the circumstances.

III. INDIA'S STATUTORY FRAMEWORK

A. Section 235: compulsory acquisition following a transfer offer

Section 235 of the Companies Act, 2013 provides a mechanism for compulsory acquisition of shares in the context of a scheme or contract involving the transfer of shares. Where the scheme or contract has, within four months of the offer, been approved by the holders of not less than nine-tenths in value of the shares whose transfer is involved, the transferee company may give

³ *Foss v. Harbottle*, (1843) 67 Eng. Rep. 189, 203 (Ch.); see also *Pannalal Bhansali*, 2026 INSC 213, ¶ 25 (recounting the proper-plaintiff rule and its exceptions).

⁴ Companies Act, *supra* note 1, §§ 241–42.

notice to dissenting shareholders that it desires to acquire their shares, subject to the statutory procedure and to their right to apply to the National Company Law Tribunal.⁵

The provision reflects a basic policy choice. Once an overwhelming majority of the relevant shareholders has accepted a takeover arrangement, allowing a very small minority to permanently obstruct the transaction may not be commercially sensible.

Yet section 235 is not a general licence to eliminate minority shareholders. Its operation is tied to the specific statutory conditions governing the transfer arrangement. The distinction matters because the justification for compulsory acquisition is strongest where the minority exit is genuinely connected with a broader takeover or corporate transaction rather than being used merely as a convenient mechanism for removing unwanted shareholders.

B. Section 236: purchase of minority shareholding

Section 236 provides a more direct statutory mechanism. Where an acquirer, a person acting in concert with it, or a person or group of persons becomes the registered holder of 90 per cent or more of the issued equity share capital, including through specified corporate events, the majority is required to notify the company of its intention to purchase the remaining equity shares.⁶

The provision also attempts to address the most sensitive aspect of a squeeze-out: price. Section 236(2) requires the offer price to be determined on the basis of a valuation by a registered valuer.⁷ Rule 27 of the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016 provides the valuation framework. For unlisted and private companies, the offer price must take into account the highest price paid by the acquirer during the preceding twelve months and a fair price determined by the registered valuer on valuation parameters including return on net worth, book value, earnings per share and the price-earnings multiple relative to the industry average.⁸

This is important because a forced exit cannot depend entirely on the bargaining position of the controlling shareholder. Independent valuation is intended to substitute, at least partly, for the negotiation that would ordinarily determine the price in a voluntary transaction.

Section 236 also provides for the minority shareholders to offer their shares to the majority at the prescribed price.⁹ The provision therefore recognises that a minority shareholder may also

⁵ *Id.* § 235.

⁶ *Id.* § 236(1).

⁷ *Id.* § 236(2).

⁸ Companies (Compromises, Arrangements and Amalgamations) Rules, 2016, G.S.R. 1134(E), r. 27(2) (India).

⁹ Companies Act, *supra* note 1, § 236(3).

have a legitimate interest in obtaining an exit once a controlling shareholder has acquired overwhelming ownership.

However, the statutory framework still leaves questions about how effectively a minority shareholder can challenge the underlying valuation or demonstrate that the valuation process itself was defective.

C. Reduction of share capital

Section 66 provides another route through which minority shareholders may be forced out. A company may reduce its share capital through a special resolution, subject to confirmation by the Tribunal and compliance with the statutory safeguards.¹⁰ A selective reduction can result in the cancellation of shares belonging to a particular class or group of shareholders.

This mechanism has generated substantial litigation because it creates the possibility of achieving a squeeze-out without directly invoking section 236.

The *Pannalal Bhansali* judgment is significant in this context. The case involved Bharti Telecom Ltd's reduction of share capital and the cancellation of shares held by identified minority investors. The Supreme Court considered objections concerning the valuation, disclosure of valuation material, independence of the valuer and the use of a discount for lack of marketability.¹¹ The Court also held that section 66, unlike section 236(2), does not itself require a valuation report, although the company in that case had voluntarily obtained one.¹²

The Court ultimately rejected the appeals and upheld the transaction. Importantly, however, the judgment did not treat majority approval as sufficient by itself. The Court examined whether the valuation was unreasonable or prejudicial and considered the circumstances surrounding the valuation, previous offers, the company's history and the voting behaviour of the shareholders.¹³

The judgment therefore demonstrates both sides of the problem. Majority rule continues to receive substantial judicial respect, but the Tribunal's scrutiny under section 66 remains an important safeguard.

IV. JUDICIAL APPROACH: FROM MAJORITY RULE TO SUBSTANTIVE FAIRNESS

Indian courts have traditionally been cautious about interfering with commercial decisions merely because a shareholder disagrees with them. This restraint is understandable. Courts are

¹⁰ *Id.* § 66(1).

¹¹ *Pannalal Bhansali*, 2026 INSC 213, ¶¶ 23, 32–46.

¹² *Id.* ¶¶ 29, 31–32.

¹³ *Id.* ¶¶ 29, 43, 46–49.

not normally better placed than directors, shareholders or professional valuers to make commercial decisions.

The Supreme Court's decision in *Miheer H. Mafatlal v. Mafatlal Industries Ltd.* is an important example of judicial restraint in corporate arrangements. The Court emphasised that judicial scrutiny should not transform the court into an appellate forum over commercial decisions merely because another view may be possible.¹⁴

However, judicial deference does not mean judicial abdication. The question becomes particularly important when the transaction results in a compulsory exit.

The Bombay High Court's approach in *In re Cadbury India Ltd.* illustrates this distinction. In considering a reduction of capital, the court examined whether the proposal was fair, reasonable and non-prejudicial and recognised that prejudice cannot be established merely because a shareholder would have preferred a higher price. At the same time, a transaction that forces a class of shareholders to surrender their shares at an unreasonably low value may justify judicial intervention.¹⁵

Pannalal Bhansali builds on this line of reasoning. The Supreme Court cautioned that a valuer's plausible rationale should not be rejected merely because the objector holds a different view, and described valuation as an exercise best left to experts. At the same time, the Court held that what the Tribunal must examine is whether the measure employed was fair and not unreasonable or prejudicial to the individual shareholders.¹⁶

This is a useful middle ground. The court should not become a substitute valuer, but neither should the existence of a valuation report automatically immunise the transaction from scrutiny.

The more important lesson is that process matters. If the minority is being forced out, it should receive enough information to understand what it is being asked to accept. A valuation report prepared by an independent professional is valuable only if the underlying assumptions and relevant information are sufficiently transparent to permit meaningful scrutiny.

V. THE PROBLEM OF VALUATION

Valuation is arguably the most difficult aspect of a squeeze-out.

¹⁴ *Miheer H. Mafatlal v. Mafatlal Indus. Ltd.*, (1997) 1 SCC 579, 598, 602 (India) (discussing the supervisory role of the court and the limits of review of commercial wisdom).

¹⁵ *In re Cadbury India Ltd.*, 2014 SCC OnLine Bom 4934, ¶ 4.8 (India), discussed in *Pannalal Bhansali*, 2026 INSC 213, ¶ 47.

¹⁶ *Pannalal Bhansali*, 2026 INSC 213, ¶¶ 46–48, 50.

In an ordinary sale, a shareholder can refuse an unattractive offer and wait for another opportunity. In a squeeze-out, that option disappears. The price therefore becomes the principal substitute for consent.

This makes the independence of the valuer particularly important. The controlling shareholder should not be able to influence the valuation process in a manner that creates even a reasonable appearance of bias. The Companies Act already relies on registered valuers in section 236, but independence could be strengthened further through mandatory conflict disclosures and more detailed disclosure of valuation methodology.

The *Pannalal Bhansali* case illustrates why this matters. The dispute involved the application of a discount for lack of marketability. The Supreme Court ultimately held that the use of such a discount was not prohibited in the circumstances and emphasised that valuation depends upon the facts of the transaction.¹⁷ The judgment is therefore not authority for the proposition that every squeeze-out valuation must include or exclude a particular discount. Instead, it shows why valuation must be examined contextually.

A further concern is information asymmetry. The controlling shareholder and management generally possess more information about the company's prospects than a small investor. If the minority does not receive meaningful information concerning the basis of the valuation, its ability to challenge an unfair price becomes largely theoretical.

The law should consequently move beyond the simple question, "Was a registered valuer appointed?" The better question is, "Was the valuation process sufficiently independent, transparent and reasoned to justify depriving the minority of its shares?"

VI. COMPARATIVE PERSPECTIVE

India is not unusual in permitting squeeze-outs. Several jurisdictions recognise that a shareholder who has acquired overwhelming control should eventually be able to consolidate ownership.

The United Kingdom provides a particularly useful comparison. Sections 979 to 985 of the Companies Act 2006 establish both squeeze-out and sell-out mechanisms. Section 979 permits an offeror who satisfies the statutory conditions to acquire shares from remaining shareholders, while section 983 provides a corresponding right for minority shareholders to require the offeror to buy their shares.¹⁸

¹⁷ *Id.* ¶¶ 38, 44–46.

¹⁸ Companies Act 2006, c. 46, §§ 979–985 (U.K.).

The existence of both rights is significant. A strong squeeze-out mechanism is balanced by an exit mechanism for the minority. The law therefore recognises that the controlling shareholder should not be trapped with a minority indefinitely, but equally recognises that the minority should not be left without an effective exit once control has become overwhelming.

European Union takeover law also provides an important comparison. Articles 15 and 16 of the Takeover Directive establish a framework for squeeze-out and sell-out rights following takeover bids, subject to the specified thresholds and conditions.¹⁹ The underlying approach is that compulsory acquisition should be linked to a sufficiently high level of control and should operate alongside corresponding protections for remaining shareholders.

The United States presents a different model. Delaware corporate law gives shareholders statutory appraisal rights in specified merger and consolidation situations under section 262 of the Delaware General Corporation Law.²⁰ The appraisal mechanism is important because it provides an institutional route for determining the value of shares where a shareholder disagrees with the consideration offered in a qualifying transaction.

These systems do not provide a single model that India should simply copy. India's concentrated ownership structure is different from the more dispersed ownership found in many Western markets. As Khanna and Varottil have observed, squeeze-out regulation must be considered in the context of India's distinctive ownership structure and corporate control environment.²¹

The useful lesson is therefore not transplantation. It is balance. A squeeze-out right is stronger when accompanied by independent valuation, meaningful disclosure, judicial or tribunal oversight and a genuine exit or appraisal remedy for minority shareholders.

VII. GAPS AND REFORM: WHAT SHOULD CHANGE IN INDIA

India does not need to prohibit squeeze-outs. Doing so would ignore their legitimate commercial purpose. Instead, the law should strengthen the safeguards around them.

First, independent valuation should become the central protection. Where a transaction compulsorily removes minority shareholders, the valuer should be demonstrably independent of the controlling shareholder and the company. Any potential conflict should be disclosed.

Second, valuation disclosure should be improved. Minority shareholders should have access to the material assumptions and methodology necessary to understand the valuation. Merely

¹⁹ Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on Takeover Bids, 2004 O.J. (L 142) 12, arts. 15–16.

²⁰ DEL. CODE ANN. tit. 8, § 262 (2025).

²¹ Vikramaditya Khanna & Umakanth Varottil, *Regulating Squeeze-Outs in India: A Comparative Perspective*, 63 AM. J. COMP. L. 1009 (2015), <https://doi.org/10.5131/ajcl.2015.0030>.

informing shareholders that a valuation report exists does not necessarily create informed consent.

Third, India should consider a majority-of-the-minority safeguard for significant squeeze-out transactions. The controlling shareholder should not be able to use its own voting power to establish the legitimacy of a transaction that principally benefits the controller. Excluding the controller's votes when determining minority approval would provide an additional layer of protection.

Fourth, the law should consider a clearer appraisal or valuation-challenge mechanism. A minority shareholder should not have to rely entirely on oppression and mismanagement proceedings to challenge an arguably inadequate exit price. A specialised mechanism for challenging valuation would make the law more predictable.

Fifth, sell-out rights should be strengthened. Once a shareholder has reached an overwhelming level of control, minority shareholders should have a practical means of requiring an exit on fair terms. This would bring India closer to the balanced approach visible in the United Kingdom and the European Union.

Finally, judicial scrutiny should remain focused on substantive fairness without becoming commercial revaluation. Courts and tribunals should not substitute their preferred valuation for that of an expert. But where the valuation is demonstrably biased, inadequately reasoned, based on incomplete disclosure or seriously prejudicial, judicial intervention should remain available.

VIII. CONCLUSION

Minority squeeze-outs expose one of the central tensions in company law. A company needs majority rule to function, but majority rule cannot become a justification for unchecked control over minority property.

India's Companies Act, 2013 already recognises this tension. Sections 235 and 236 provide specific mechanisms for compulsory acquisition and purchase of minority shareholding, while section 66 permits reduction of share capital subject to Tribunal supervision. The difficulty is that these provisions do not yet operate as one coherent minority-protection framework.

The *Pannalal Bhansali* decision is particularly valuable because it shows that the courts can respect commercial decision-making without treating minority objections as irrelevant. The Supreme Court upheld the transaction but nevertheless examined valuation, disclosure, fairness and prejudice. This approach is preferable to either extreme: unrestricted judicial intervention or complete deference to majority decisions.

The objective should therefore not be to choose between majority rule and minority protection. A well-designed squeeze-out regime requires both. Majority shareholders should be able to consolidate ownership where there is a legitimate commercial reason, but minority shareholders should receive an exit price determined through a transparent and independent process.

Ultimately, the legitimacy of a squeeze-out should depend not merely on who has the votes, but also on how the minority is treated when those votes are used to remove them. Indian company law has the foundations of such a framework. The next step is to make those protections more consistent, transparent and effective.
