*Page 1028 - 1032* **DOI:** *https://doij.org/10.10000/IJLMH.119766*

# INTERNATIONAL JOURNAL OF LAW MANAGEMENT & HUMANITIES

[ISSN 2581-5369]

**Volume 8 | Issue 3**

**2025**

# Case Commentary Workmen of Nilgiri Coop. Mkt. Society Ltd. vs. State of Tamil Nadu and Ors.

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## ABSTRACT

*This commentary critically examines the Supreme Court's decision in 'Workmen of Nilgiri Cooperative Marketing Society Ltd. v. State of Tamil Nadu', which applied the control and integration tests mechanically and thereby denied contract workers in a cooperative society protection under labor law. In giving primacy to formal contractual relationships over economic dependency, the Court did not promote substantive justice to vulnerable workers. This decision continues to reinforce structural inequalities and erodes the protective goals of labor law, especially in India's large informal sector. This paper argues that the decision is a sign of a glaring flaw in reasoning and begs the cause for a jurisprudential shift towards the recognition of de facto employment relationships. Based on principles embedded in the Indian Constitution and international labor standards, it appeals for the development of a more inclusive and pragmatic legal framework that guarantees the rights of economically dependent workers in all sectors.*

***Case**: Workmen of Nilgiri Coop. Mkt. Society Ltd. vs. State of Tamil Nadu and Ors.*[2]
***Court:** Supreme Court of India*
***Citation:** (2004) 3 SCC 514*
***Coram:** S.B. Sinha and Y.K. Sabharawal*

## I. INTRODUCTION

The judgement primarily dealt with the issue of employer-employee relationships in cooperative societies.[3] The porters and graders of the Nilgiri Cooperative Marketing Society challenged their employment status. While the Society contended that they were independent contractors, the workers maintained that they were entitled to statutory benefits under labor laws. The main points of contention were whether the Society's operations qualified as "industry" for the purposes of the Industrial Disputes Act of 1947[4] (hereinafter,

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[2] *Workmen of Nilgiri Coop. Mkt. Society Ltd. v State of Tamil Nadu and Ors.* (2004) 3 SCC 514.
[3] ibid.
[4] The Industrial Disputes Act 1947.

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referred to as IDA) and if the employees were "workmen" deserving of labor laws' protection. This paper attempts to critically examine the judgement as well as attempt to answer the question that the court has raised- has there been a manifest error in rendering the judgement?

## II. SHORTCOMINGS OF THE SUPREME COURT'S ANALYSIS

The Supreme Court gave careful consideration to several elements, including the nature of engagement, control, and supervision of work. Its reliance upon the *control and integration test* as its primary determining factor on an employer-employee relationship shows an overly rigid interpretation of legal doctrines that ignores economic reality. The claims of the workers in this case were denied using the *control test*, which looks at the degree of supervision or control an employer has over a worker, and the *integration test*, which takes into account whether the worker is an essential component of the company.[5] Though historically important, these tests overlook modern labour dynamics- where employers rely more and more on contracts to avoid direct accountability.

The Court reinforced the structural weaknesses allowing companies to deny workers legal protections by deciding that they had not sufficiently proven their direct employment status. This decision corresponds previous rulings including ***General Manager, Telecom v. A. Srinivasa Rao (1997)***[6] and ***Steel Authority of India Ltd. v. National Union Water Front Workers (2001)***[7], where similar reasons were used to deny contract labourers formalisation. But these interpretations contradict the goal of labour welfare standards outlined to stop the exploitation of the vulnerable workers.

## III. 'WORKMEN'? 'INDUSTRY'?

The Society's main argument was on the basis of narrow substantive interpretation of Section 2(j) of IDA, which "industry" is defined as "any business, trade, undertaking, manufacture or calling of employers."[8] This brings about the employer's perspective. They claimed that cooperative societies, particularly those for welfare purposes, should not be equated with commercial establishments. What the Court failed to see is using this same logic, the Court's reliance on the "*triple test*" remains problematic when applied to cooperatives.[9] Cooperatives differ from traditional businesses in that they are based on

[5] *Workmen of Nilgiri Coop. Mkt. Society Ltd. v State of Tamil Nadu and Ors.* (2004) 3 SCC 514 [35]–[51].
[6] *General Manager, Telecom v A. Srinivasa Rao* (1997) 8 SCC 767.
[7] *Steel Authority of India Ltd. v National Union Water Front Workers* (2001) 7 SCC 1.
[8] The Industrial Disputes Act 1947, s. 2(j).
[9] *Bangalore Water Supply and Sewerage Board v A. Rajappa* 1978 SCR (3) 207, 10.

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member ownership and democratic control, and thus the employer-employee distinction is inherently irrelevant. Though aware of the legislative intent of Section 2(j) that clearly excludes institutions formed "not for the purpose of making profit", the Court, in this case, lost an opportunity where they could apply democratic employee/ worker-oriented laws by opting for 'form' over 'substance', since one of the main objectives of the society was 'protecting workers from exploitation'.

Section 2(s) of IDA, which defines "workman," was interpreted to exclude workers employed through intermediaries, making them ineligible for direct employment.[10] Section 10 of IDA, under which the government can refer disputes for adjudication, became useless since the Court did not accept the employment relationship between the society and the workmen. This contradicted from ***Hussainbhai, Calicut v. Alath Factory Thezhilali Union (1978)***, wherein indirect employment was not permitted to negate labor rights.[11] Furthermore, the Court disregarded Section 25F of IDA, which establishes conditions for retrenchment, rendering contract workers with no means of recourse against unfair dismissal.[12] The decision represents a judicial tendency that limits labor protection at the expense of employers.

## IV. ECONOMIC DEPENDENCE?

*"Raw societal realities, not fine-spun legal niceties, not competitive market economics but complex protective principles, shape the law when the weaker, working class sector needs succour for livelihood through labour."*[13]

\- *Justice Krishna Iyer*

Even though the court correctly identifies and applies established tests (*control test, integration test*, and the multiple pragmatic approach) for determining the employer-employee relationship, a potential criticism would be whether the court gave sufficient weight to the economic reality of the situation. The undeniable question remains- did the court prioritize the formal contractual arrangements over the actual power dynamics and economic dependence?

A more progressive approach would have been to take into account the principle of economic dependency, which takes into account that workers hired via contractors usually operate as de facto employees of the main employer. The Supreme Court recognised that

[10] The Industrial Disputes Act 1947, s. 2(s).
[11] *Hussainbhai, Calicut v Alath Factory Thezhilali Union* 1978 SCR (3) 1073, 8.
[12] The Industrial Disputes Act 1947, s. 25F.
[13] *Hussainbhai, Calicut v Alath Factory Thezhilali Union* 1978 SCR (3) 1073, 4 (Iyer, K. SCJ).

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workers could obtain employment benefits in ***Hussainbhai*** case, even in cases where intermediaries were involved, if their economic survival was connected to the principal employer.[14] Nilgiri's contrasting judgement shows a regressive trend favouring contractual technicalities over workers' lived experiences.

The case, therefore, failed to take into account the practical realities of labour in cooperative societies. Despite their semi-private character, cooperatives sometimes have a lot of state involvement and resemble public sector organisations where direct employment protections should be recognized.[15] The Court indirectly approved employment policies allowing cooperatives to evade responsibility by discounting the claims of the workers, so benefiting from their labour even while it helps them evade liability.

## V. IMPACT ON CONTRACT LABOR AND THE INFORMAL WORKFORCE

According to the Periodic Labour Force Survey (2023-24), nearly 65% of India's workforce operates in the informal sector, including many engaged with cooperatives and similar organizations.[16] The judgement allows companies to evade labour protections through intermediaries, so perpetuating the vulnerability of contract workers, as analysed before. With millions of workers engaged under erratic and shaky contracts, India features one of the biggest informal workforces worldwide. The ruling unintentionally promotes businesses to keep using contract labour gaps instead of guaranteeing fair employment terms by strengthening a strict employer-employee classification system.

Beyond cooperative societies, the consequences reach into sectors including manufacturing, retail, and gig work, where workers sometimes find themselves left without labour protections despite their significant economic contributions. Under Article 43 of the Indian Constitution, the lack of legal recognition for de facto workers aggravates income disparity and job uncertainty, so contradicting the constitutional mandate of guaranteeing just and humane conditions of work.

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[14] Punam Balodia, 'Case Analysis: *Hussain Bhai Calicut v Alath Factory Thozhilali Union* AIR 1978 SC 1410, (1978) 3 SCR 1073' (2021) 2 *Indian Journal of Law and Legal Research* 1 <https://heinonline.org/HOL/Page?collection=journals&handle=hein.journals/injlolw2&id=5249> accessed 2 March 2025.

[15] Bhushan T. Kaul, ''Industry,' 'Industrial Dispute,' and 'Workman': Conceptual Framework and Judicial Activism' (2008) 50 JILI [1], <https://lc2.du.ac.in/DATA/003_Industry,%20Industrial%20Disputes%20and%20Workman_Conceptual%20Fra mwork%20and%20Judicial%20Activism%20(3-50).pdf > accessed 2 March 2025.

[16] Government of India: Ministry of Statistics and Programme Implementation, 'Annual Report of Periodic Labour Force Survey (PLFS) 2023-24' (September 2024).
<https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1966154 > accessed 2 March 2025.

## VI. INTERNATIONAL JURISPRUDENCE

Several nations including the United Kingdom and Canada have embraced more complex employment classification policies. UK introduced the idea of "worker" status through the Employment Rights Act, 1996 which gives those workers who are still economically dependent on their employers but are not full employees certain protections.[1718] Likewise, Canada's labour laws use the *economic reality test*, which looks at degree of reliance instead of merely contractual requirements.[19]

In ***FNV Kunsten Informatie en Media v. Netherlands (2014)***, the European Court of Justice has also emphasised the need of recognising disguised employment relationships (employment through intermediaries).[20] Should India follow a similar approach, courts would have more freedom to evaluate labour conflicts depending on substance rather than only formality.

## VII. CONCLUSION

The Supreme Court in this case had the opportunity to take a forward leap on Indian labour rights. In insisting on a formalistic over substantive justice approach, the judgment ratified contractual labour practices subversive to the very basis of labour welfare legislation. Based on the foregoing analysis, The author opines that this judgment demonstrates a manifest error through giving greater significance to contractual forms at the expense of substantive labour rights and destroying the protective rationale of labour legislations. To avert further erosion of workers' rights, the approach needs to be more equitable, involving the inclusion of economic dependence, statutory definition revision, and the bolstering of labour adjudication. Judicial interpretations need to change so that they consider the fact that employment relations in the contemporary economy are not always linear, and legal frameworks need to adjust so that they serve the interests of the most vulnerable sections of the workforce.

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[17] International Labour Office, *Report V: The scope of the employment relationship,* (Intl Labour Con. 91st Session, 2003) 49-51.
[18] Employment Rights Act 1996, s. 230 (3).
[19] International Labour Office, *Report V: The scope of the employment relationship,* (Intl Labour Con. 91st Session, 2003) 49-51.
[20] Case C-413/13 *FNV Kunsten Informatie en Media v Staat der Nederlanden* [2014] ECLI:EU:C:2014:2411.

 [ISSN 2581-5369]