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Corporate Group Liability in India: Can a Parent Company be held Responsible for the Wrongdoing of its Subsidiary?

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The paper first sets out the general rule of limited liability and separate personality under the Companies Act, 2013. According to a universal bedrock principle of corporate law, corporations have separate legal personality and limited liability. These principles apply equally to corporate groups, so a parent company is normally not liable for legal infractions and unpaid debts of its subsidiaries.[1] So, owning shares in a subsidiary does not by itself make the parent answerable for what the subsidiary does. The paper takes a problem-based approach. It first identifies the kinds of wrongdoing most likely to raise the question: corporate fraud, industrial accidents, environmental damage, unpaid dues to workers, and tax or regulatory evasion. It then tests each against the tools available in Indian law, namely judicial lifting of the corporate veil and the Companies Act, 2013.

Indian businesses are rarely a single company. Most large enterprises work as groups, with a holding company at the top and many subsidiaries below, often sharing directors, funds, offices, and brand names. The law, however, treats each company as a separate person, which means a parent is usually not responsible for what its subsidiary does.[2] The paper argues that Indian law answers the question of parent liability through three different doors, and that none of them is fully satisfactory on its own. The first is the judge-made door of lifting the corporate veil, which opens mainly in cases of fraud or sham arrangements. The second is the statutory door, where specific laws such as the Companies Act, 2013, the Competition Act, 2002, and environmental and labour legislation name responsible persons or treat related companies as one unit. The third is the

1 *Bacha F Guzdar v Commissioner of Income Tax, Bombay* AIR 1955 SC 74

2 *Salomon v A Salomon & Co Ltd* [1897] AC 22 (HL)

contractual and practical door, where parent guarantees, letters of comfort, and the parent's own direct involvement create liability that does not depend on piercing anything.

Keywords: *corporate veil, parent company, subsidiary, group liability, accountability.*

INTRODUCTION

The Companies Act in India and jurisdictions all over the world have statutorily recognised subsidiaries as a separate legal entity. Section 2(87) of the Companies Act, 2013 (CA 2013), defines 'subsidiary company' or 'subsidiary' as a company in which the holding company controls the composition of the Board of Directors; or exercises or controls more than one-half of the total voting power either on its own or together with one or more of its subsidiary companies.

Subsidiaries are of different types, a vast majority of which are pure investment holding companies. However, there are many subsidiaries that have independent business activity, significant operations, and manufacturing facilities and also have an independent Board of Directors if they're listed subsidiaries. The subsidiaries, which are used as an investment vehicle, are normally tightly controlled by the holding company, and the majority of the directors of such subsidiaries are generally the officials of the holding company. However, listed subsidiaries need to be treated very differently, and they generally enjoy a good degree of autonomy in their operation due to provisions of the CA 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Foreign subsidiaries will be governed by the local laws of the place of incorporation, and they need to be treated very differently so they can comply with their local applicable law. The decision-making process of such foreign subsidiaries should be located outside India to avoid any potential tax implications in India.[3]

The Companies Act in India and jurisdictions all over the world have statutorily recognised subsidiaries as a separate legal entity. Section 2(87) of the Companies Act, 2013 (CA 2013),

[3] Bharat Vasani, 'When is a Holding Company liable for the acts and omissions of its subsidiary? A Jurisprudential Analysis' (*Cyril Amarchand Mangaldas*, 13 March 2024) <https://corporate.cyrilamarchandblogs.com/2024/03/when-is-a-holding-company-liable-for-the-acts-and-omissions-of-its-subsidiary-a-jurisprudential-analysis/> accessed 08 October 2026

defines 'subsidiary company' or 'subsidiary' as a company in which the holding company controls the composition of the Board of Directors; or exercises or controls more than one-half of the total voting power either on its own or together with one or more of its subsidiary companies.

The Supreme Court in Vodafone International Holdings BV v Union of India ('Vodafone judgement') held that the legal relationship between a holding company and its wholly owned subsidiary is that they are two distinct legal persons, and the holding company does not own the assets of the subsidiary and, in law, the management of the subsidiary's business vests in its Board of Directors. A company has a separate legal existence, irrespective of whether one person or one company (the holding/parent company) owns all its shares. When a holding company has a wholly owned subsidiary, it may appoint or remove any director through a resolution in the general body meeting of the subsidiary. In the Vodafone judgment, the Supreme Court held that the parent company's control or power over the subsidiary depended on the specific circumstances of each case. The Court observed that, 'The decisive criterion is whether the parent company's management has such steering interference with the subsidiary's core activities that the subsidiary can no longer be regarded to perform those activities on the authority of its executive Directors.'[4]

SEPARATE LEGAL PERSONALITY AND LIMITED LIABILITY UNDER INDIAN LAW

Indian company law generally treats a company as a legal person distinct from its shareholders and from other companies in the same corporate group. Incorporation gives a company a separate legal identity, allowing it to own property, enter contracts, sue and be sued in its own name. A subsidiary therefore does not lose its separate personality merely because another company owns or controls it.

The Supreme Court recognised this principle in *Bacha F. Guzdar v Commissioner of Income Tax*, holding that a shareholder does not own the company's assets; the shareholder holds shares and enjoys the rights attached to them. The broader principle of separate corporate personality is also commonly associated with *Salomon v A. Salomon & Co. Ltd.* The Companies Act, 2013 defines the relationships between holding and subsidiary companies in sections

[4] 'Can a holding company be held liable for the acts of its subsidiary? Explain.' (*Lawvs*) <https://lawvs.com/question/441> accessed 08 October 2026

2(46) and 2(87), but those definitions do not, by themselves, make a holding company liable for a subsidiary's debts or conduct.[5]

Limited liability generally protects members from personal responsibility for the company's obligations beyond the amount, if any, unpaid on their shares or the amount they have undertaken to contribute. Section 9 of the Companies Act gives an incorporated company the status of a body corporate with these separate legal attributes. The company itself remains responsible for its debts and legal obligations.

These principles apply to corporate groups as well. A parent company's shareholding, common branding, overlapping directors, or commercial coordination with a subsidiary does not automatically make the parent liable for the subsidiary's wrongdoing. As the Supreme Court explained in *Balwant Rai Saluja v Air India Ltd.*, courts may disregard separate corporate personality only in limited circumstances; common ownership or control alone is not enough.

This rule provides certainty for investment and commercial activity, but it can also create difficulties where a subsidiary lacks sufficient assets to meet its obligations. The question is therefore not simply whether the parent owns or controls the subsidiary, but whether a recognised legal basis exists to impose liability on the parent, such as veil-piercing, a specific statutory provision, a contractual commitment, or the parent's own conduct.[6]

WHEN DOES PARENT LIABILITY BECOME AN ISSUE?

A subsidiary's wrongdoing does not, by itself, make its parent company liable. The question usually arises when a subsidiary causes serious harm, cannot meet its obligations, or appears to have been used to avoid legal responsibility. In those circumstances, claimants and regulators may ask whether the parent can be held liable under a specific statute because of its own conduct or commitments or by disregarding the companies' separate legal identities in an exceptional case.

Fraud and Evasion: Parent liability may be examined where a subsidiary is alleged to have been used to conceal assets, defeat creditors, evade a legal obligation, or carry on business

[5] Companies Act 2013, ss 2(46), 2(87), 4 and 9
[6] *Balwant Rai Saluja and Anr v Air India Ltd and Ors* (2014) 9 SCC 407

for a fraudulent purpose. The Companies Act 2013 provides a route to personal liability for persons knowingly party to fraudulent conduct in the course of winding up. That provision is not a general rule making a parent company liable whenever a subsidiary commits fraud.

Industrial Accidents and Environmental Harm: A serious accident or pollution event may prompt scrutiny of the parent's role in safety policy, technical decisions, operational oversight, or the activity that caused the harm. The Bhopal gas disaster illustrates the practical difficulty: claims were brought against Union Carbide Corporation in connection with the leak at the plant operated by its Indian subsidiary, Union Carbide India Limited. The litigation and settlement are important context but should not be presented as a general Supreme Court holding that a parent is liable for a subsidiary's industrial accident. In *M.C. Mehta v Union of India*, the Supreme Court developed the rule of absolute liability for an enterprise engaged in a hazardous or inherently dangerous activity; the case concerned the enterprise operating the hazardous facility and does not itself establish automatic liability for a separate parent company.[7]

Unpaid Worker Dues: Where a subsidiary fails to pay wages or other statutory employment dues, workers may seek recovery from the employer identified by the relevant labour law. The parent's involvement becomes relevant if the facts or the statute support treating it as an employer, principal employer, contractor, or another legally responsible person. Group membership or common management alone does not establish that status.

Tax and Regulatory Violations: A parent may face scrutiny where it is alleged to have directly participated in a violation, made a legally relevant representation or undertaking, or falls within a statute's specific rules on responsibility. Tax statutes can, for example, impose representative-assessed obligations in defined circumstances; those provisions do not create a general rule that a parent must pay a subsidiary's tax debts.[8]

These examples identify circumstances that can trigger investigation or litigation, rather than independent grounds for liability. The decisive question is the legal route available on the facts: whether the parent itself committed a wrong, accepted an obligation, or falls within a

[7] Companies Act 2013, ss 339(1), (3)
[8] Income-tax Act 1961, ss 160–163

statute's definition of a responsible person, or whether exceptional grounds justify disregarding the subsidiary's separate personality.[9]

JUDICIAL VEIL-PIERCING IN INDIA

Governing Principles and Limits: Indian courts treat veil-piercing as an exception to separate corporate personality. It allows a court, for a particular legal purpose, to look beyond a company's formal identity and examine the people or entities behind it. The doctrine is not a general mechanism for transferring a subsidiary's debts or liabilities to its parent.

The Supreme Court has said that whether the veil may be lifted depends on the governing law, the object of the inquiry, the conduct in question, and any public interest involved. In *State of Rajasthan v Gotan Lime Stone Khanji Udyog Pvt. Ltd.*, the court considered whether a corporate restructuring concealed a transfer of mining rights that required statutory consent. It examined the substance of the transaction and the purpose of the applicable rules.[10]

A claimant therefore needs more than evidence of common ownership, overlapping directors, financial connections, or group control. The facts must show a legally relevant reason to look behind the corporate structure. And even where a court lifts the veil, the effect is tied to the issue before it; it does not automatically merge every company in the group for all purposes.[11]

Fraud, Evasion, and Sham Structures: Fraud or evasion may justify looking beyond a company's formal structure, where that structure has been used to conceal the true transaction, defeat an existing obligation, or circumvent a statutory requirement. In *Gotan Limestone*, the Supreme Court found that the share transfer formed part of a transaction that effectively transferred mining rights for consideration without the required prior consent. The corporate steps could not shield the transaction from the governing rules.[12]

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[9] *Life Insurance Corporation of India v Escorts Ltd & Ors* (1986) 1 SCC 264; *Balwant Rai Saluja and Anr v Air India Ltd and Ors* (2014) 9 SCC 407

[10] *State of Rajasthan and Ors v Gotan Lime Stone Khanji Udyog Pvt Ltd and Anr* (2016) 4 SCC 469

[11] *Life Insurance Corporation of India v Escorts Ltd & Ors* (1986) 1 SCC 264 [90]; *Balwant Rai Saluja and Anr v Air India Ltd and Ors* (2014) 9 SCC 407

[12] *State of Rajasthan and Ors v Gotan Lime Stone Khanji Udyog Pvt Ltd and Anr* (2016) 4 SCC 469

Tax arrangements provide another example. In *Juggilal Kamlapat v Commissioner of Income Tax*, the Supreme Court recognised that authorities may examine the real nature of corporate arrangements where they are alleged to be a device for evading tax. The decision supports scrutiny of arrangements used to conceal the true character of a transaction; it does not establish that one group company is automatically responsible for another's tax liability.

The term 'sham' should be used carefully. A company is not a sham merely because it is wholly owned, closely controlled, undercapitalised, or part of a corporate group. The relevant question is whether the company's separate form was used in the particular circumstances to conceal wrongdoing or avoid a legal obligation.[13]

STATUTORY ROUTES TO PARENT-COMPANY LIABILITY

Statutes can create routes to liability that are distinct from judicial veil-piercing. Some provisions identify persons who may be responsible for a company's offence; others define a corporate 'group' for a specific regulatory purpose or impose duties on a particular employer. These provisions do not establish a general rule that a parent company is liable for all of a subsidiary's conduct. The relevant statute, the parent's role, and the facts must be examined separately.[14]

Companies Act 2013: The Companies Act contains provisions that can reach people knowingly involved in a company's misconduct. For example, section 339 allows the Tribunal, in the course of winding up, to declare directors, officers, or other persons knowingly party to fraudulent business personally responsible for specified debts or liabilities. Section 2(60) defines 'officer who is in default' for provisions that use that term.

These provisions may be relevant where parent-company personnel participated in the subsidiary's conduct and satisfy the applicable statutory conditions. They do not, by themselves, make the parent company responsible merely because it is the holding company. The particular offence or obligation, the person's role, and the provision's requirements must be established.[15]

[13] *Balwant Rai Saluja and Anr v Air India Ltd and Ors* (2014) 9 SCC 407
[14] Companies Act 2013, ss 2(60), 339
[15] *Ibid* s 339 (3)

Competition Act 2002: The Competition Act uses 'group' and 'control' concepts for defined purposes, including assessing combinations under section 5. The group definition considers matters such as voting rights, board appointment powers, and control over management or affairs. This can require group-level information or affect whether a transaction falls within the combination rules. That statutory treatment of group relationships is not a general rule of civil liability for a subsidiary's debts or wrongdoing. The Act's provisions must be applied to the particular competition-law issue involved, such as a combination or alleged anti-competitive conduct.[16]

Environmental and Labour Legislation: Environmental statutes may impose responsibility on the company that committed the offence and on specified officers who were directly in charge of and responsible for the conduct of its business, subject to statutory defences. For example, section 16 of the Environment (Protection) Act, 1986, addresses offences by companies and the responsibility of certain officers. A parent-company officer's title or group position alone does not necessarily establish the required responsibility; the statutory test and evidence of that person's role matter.

Labour laws may place duties on a defined employer or principal employer. Under section 21(4) of the Contract Labour (Regulation and Abolition) Act, 1970, where the contractor fails to pay wages or pays them short, the principal employer is required to make good the shortfall and may recover it from the contractor. This may be relevant to a parent only if it qualifies as the principal employer under the Act and the facts; group membership alone does not establish that status.[17]

Tax and Sector-Specific Laws: Tax legislation can impose liability on a person who falls within a defined statutory category. Under Sections 160 and 163 of the Income-Tax Act, 1961, for example, a person in India may, in specified circumstances, be treated as an agent of a non-resident and assessed as a representative assessee. Section 163 requires that person be given an opportunity to be heard before being treated as an agent. These provisions are limited to their statutory conditions; they do not make a parent responsible for every tax debt of a subsidiary.

[16] *Ibid* s 5
[17] Environment (Protection) Act 1986, ss 16(1)–(2)

Other sector-specific laws may identify the 'occupier,' 'responsible person,' 'employer,' licensee, or person in control of a regulated activity. Whether a parent falls within such a category depends on the provision and the evidence of its actual role. The paper should therefore identify the exact statute and duty for each example instead of treating 'statutory liability' as a single, uniform route.[18]

LIABILITY BASED ON THE PARENT'S OWN CONDUCT

A parent company may incur liability for obligations it undertakes or for wrongful acts in which it directly participates. This is distinct from holding the parent liable merely because it owns or controls the subsidiary. The relevant questions are what the parent itself did or promised, to whom it owed a duty, and whether the applicable legal requirements are met.[19]

Direct Participation or Control: A parent's involvement may become relevant where it makes or implements the decision connected to the harm, gives operational directions, or itself undertakes responsibility for an activity. The parent's shareholding or general oversight alone does not establish liability; the claim must be based on the parent's own conduct and an applicable legal duty.

In *Vedanta Resources PLC v Lungowe*, the UK Supreme Court explained that a parent's liability in negligence depends on ordinary principles of tort law, including whether the parent's own conduct gives rise to a duty of care. The decision is comparative authority, not binding Indian law. It may help frame the distinction between direct liability for a parent's own actions and liability imposed by piercing the corporate veil.[20]

Guarantees and Contractual Commitments: A parent may also accept responsibility for a subsidiary's debt by entering into a guarantee. Section 126 of the Indian Contract Act 1872 defines a contract of guarantee as a promise to perform the obligation, or discharge the liability, of a third person upon default. Under Section 128, a surety's liability is generally co-extensive with that of the principal debtor, subject to the terms of the contract. Accordingly, whether a parent is liable depends on the commitment it actually made and the document's

[18] Income-tax Act 1961, ss 160(1)(i), 161(1), 163(1)–(2)
[19] *Vedanta Resources PLC and Anr v Lungowe* [2019] UKSC 20 [49]–[54]
[20] Indian Contract Act 1872, ss 126, 128

terms. A parent's general statement of support, financial assistance, or intention to help a subsidiary should not automatically be treated as a guarantee.

Letters of Comfort: A letter of comfort may express support for a subsidiary without promising to pay its debts. Its legal effect depends on the language used and the circumstances in which it was issued. In *Lucent Technologies Inc. v ICICI Bank Ltd.*, the Delhi High Court observed that there is no absolute rule that a letter of comfort either does or does not create a legal relationship; the document must be construed in context. A letter that contains a sufficiently clear undertaking may therefore have contractual consequences, while a statement of intention or reassurance may not. The label 'letter of comfort' is not conclusive: the text must be assessed to determine whether the parent made an enforceable promise.[21]

LIABILITY BASED ON THE PARENT'S OWN CONDUCT

A parent company may be liable for its own acts or commitments toward a subsidiary, its workers, creditors, or others affected by the subsidiary's operations. This is a separate basis of liability from veil-piercing: the question is whether the parent itself breached a duty or made an enforceable promise. Ownership, group policies, or general oversight alone do not necessarily establish liability.[22]

Direct Participation or Control: A parent's direct involvement may be relevant where it makes operational decisions, directs the activity that causes harm, or assumes responsibility for a particular function. The claim must still satisfy the ordinary legal requirements for the cause of action—for example, establishing a duty and breach in a negligence claim. The parent's ability to control a subsidiary, without evidence of relevant conduct or an applicable duty, is not enough by itself. The UK Supreme Court's decision in Vedanta Resources PLC *v* Lungowe discusses how a parent's own conduct may give rise to a duty of care under ordinary tort principles. It is comparative authority, not binding Indian law, but it can help illustrate the distinction between direct liability and veil-piercing.

Guarantees and Contractual Commitments: A parent may expressly agree to answer for a subsidiary's debt by giving a guarantee. Section 126 of the Indian Contract Act, 1872, defines a guarantee as a contract to perform a promise or discharge the liability of a third person in

[21] *Lucent Technologies Inc v ICICI Bank Limited & Ors* (2009) SCC OnLine Del 3213
[22] *Vedanta Resources PLC and Anr v Lungowe* [2019] UKSC 20 [49]–[54]

case of default. Under section 128, the surety's liability is generally co-extensive with that of the principal debtor, subject to the contract's terms. Whether a parent has given a guarantee depends on the commitment it made and the document's wording. A general promise of support or an undertaking to provide funds to the subsidiary may not, without more, amount to a promise to pay the creditor if the subsidiary defaults.[23]

Letters of Comfort: A letter of comfort may offer reassurance about a subsidiary's financial position or the parent's intentions. It does not automatically create a guarantee. In *Lucent Technologies Inc. v ICICI Bank Ltd.*, the Delhi High Court stated that there is no absolute rule on whether a letter of comfort creates legal relations; the document must be interpreted in context.

The wording, surrounding communications, and circumstances of the issue may help determine whether the parent made an enforceable commitment. The document's title is not conclusive: the key question is whether it contains a sufficiently clear promise.[24]

COMPARATIVE ASSESSMENT: STRENGTHS AND GAPS IN THE INDIAN FRAMEWORK

The Indian framework protects the separate legal identity of each company while preserving routes to liability where a parent has itself acted wrongfully, assumed a legal obligation, or falls within a statute's definition of a responsible person. This balance supports predictable corporate organisation and investment. It also means that a parent is not liable merely because it owns or controls a subsidiary. A strength of the framework is its flexibility. The Supreme Court has applied veil-piercing where the corporate form was used to conceal a transaction and evade a statutory requirement and has recognised that public interest may be relevant to the analysis. This allows courts to respond to arrangements that misuse corporate separation without treating every corporate group as a single legal entity.[25]

The framework also provides targeted statutory routes. For example, the Companies Act 2013 addresses fraudulent conduct in winding-up proceedings, while environmental and labour statutes impose duties on specified companies, officers, employers, or principal

[23] Indian Contract Act 1872, ss 126, 128
[24] *Lucent Technologies Inc v ICICI Bank Limited & Ors* (2009) SCC OnLine Del 3213
[25] *Balwant Rai Saluja and Anr v Air India Ltd and Ors* (2014) 9 SCC 407

employers. These provisions can reach responsible actors without requiring a court to disregard corporate personality in every case. The corresponding gap is that these routes are specific and may not fit every claim involving harm caused by a subsidiary. Section 339 of the Companies Act, for instance, applies in the course of winding up and has defined requirements. Other statutes depend on whether the parent meets a particular legal description, such as an officer responsible for the company's business or a principal employer. A parent's group-level influence, standing alone, may not satisfy those tests.[26]

Overall, Indian law offers several ways to address parent-company conduct, but they do not form a single, comprehensive test for group liability. The main challenge is to preserve separate personality while ensuring that the corporate structure does not prevent an effective remedy where the parent itself played a legally significant role. A clearer statutory framework could help define when group-level responsibility follows from direct involvement, an assumed duty, or control over a regulated activity, while keeping liability tied to the parent's own role.[27]

CONCLUSION

Indian law begins from the principle that a parent and its subsidiary are separate legal persons. A parent is not liable merely because it owns or controls the subsidiary. Liability may nevertheless arise where a statute applies to the parent or its responsible officers, the parent has made an enforceable contractual commitment, or the parent's own conduct gives rise to a legal claim. Courts may also lift the corporate veil in exceptional cases where the corporate form is used to conceal fraud or evade a legal obligation.

The framework therefore provides several routes to accountability but no general rule of group liability. Whether a parent can be held responsible depends on the particular statute, undertaking, or conduct established on the facts. This preserves corporate separateness while allowing courts and regulators to address misuse of that separation.[28]

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[26] *State of Rajasthan and Ors v Gotan Lime Stone Khanji Udyog Pvt Ltd and Anr* (2016) 4 SCC 469

[27] *Vedanta Resources PLC and Anr v Lungowe* [2019] UKSC 20 [49]–[54]

[28] *Balwant Rai Saluja and Anr v Air India Ltd and Ors* (2014) 9 SCC 407; State *of Rajasthan and Ors v Gotan Lime Stone Khanji Udyog Pvt Ltd and Anr* (2016) 4 SCC 469; Companies Act 2013, s 339; Indian Contract Act 1872, ss 126, 128