



(a) in the case of a licence granted before the commencement of the Indian Electricity (Amendment) Act, 1959 (32 of 1959), on the expiration of each such period as is specified in the licence; and (b) in the case of a licence granted on or after the commencement of the said Act, on the expiration of such period not exceeding thirty years and of every such subsequent period, not exceeding twenty years, as shall be specified in this behalf in the licence;

have the option of purchasing the undertaking and such option shall be exercised by the State Electricity Board serving upon the licensee a notice in writing of not less than one year requiring the licensee to sell the undertaking to it at the expiry of the relevant period referred to in this sub-section.

(2) Where a State Electricity Board has not been constituted, or if constituted, does not elect to purchase the undertaking, the State Government shall have the like option to be exercised in the like manner of purchasing the undertaking.

(3) Where neither the State Electricity Board nor the State Government elects to purchase the undertaking, any local authority constituted for an area within which the whole of the area of supply is included shall have the like option to be exercised in the like manner of purchasing the undertaking.

(4) If the State Electricity Board intends to exercise the option of purchasing the undertaking under this section, it shall send an intimation in writing of such intention to the State Government at least eighteen months before the expiry of the relevant period referred to in sub-section (1) and if no such intimation as aforesaid is received by the State Government the State Electricity Board shall be deemed to have elected not to purchase the undertaking.

(5) If the State Government intends to exercise the option of purchasing the undertaking under this section, it shall send an intimation in writing of such intention to the local authority, if any, referred to in sub-section (3) at least fifteen months before the expiry of the relevant period referred to in sub-section (1) and if no such intimation as aforesaid is received by the local authority, the State Government shall be deemed to have elected not to purchase the undertaking.

(6) Where a notice exercising the option of purchasing the undertaking has been served upon the licensee under this section, the licensee shall deliver the undertaking to the State Electricity Board, the State Government or the local authority, as the case may be, on the expiration of the relevant period referred to in sub-section (1) pending the determination and payment of the purchase price.

(7) Where an undertaking is purchased under this section, the purchaser shall pay to the licensee the purchase price determined in accordance with the provisions of sub-section (4) of Section 7-A."

5. Thus, under Section 6 the compensation, i.e. the purchase price was to be determined in accordance with the provisions of sub-section (4) of Section 7-A.

6. Section 7-A, as it originally stood, reads as follows:  
"7-A Determination of purchase price.- (1) Where@@  
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an undertaking of a licensee, not being a local authority, is sold under sub-section (1) of Section 5, the purchase price of the undertaking shall be the market value of the undertaking at the time of purchase or where the undertaking has been delivered before the purchase under sub-section (3) of that section, at the time of the delivery of the undertaking and if there is any difference or dispute regarding such purchase price, the same shall be determined by arbitration.

(2) The market value of an undertaking for the purpose of sub-section (1) shall be deemed to be the value of all lands, buildings, works, materials and plant of the licensee suitable to, and used by him, for the purpose of the undertaking, other than; (i) a generating station declared by the licence not to form part of the undertaking for the purpose of purchase, and (ii) service lines or other capital works or any part thereof which have been constructed at the expense of consumers, due regard being had to the nature and condition for the time being of such land, buildings, works, materials and plant and the state of repair thereof and to the circumstance that they are in such position as to be ready for immediate working and to the suitability of the same for the purpose of the undertaking, but without any addition in respect of compulsory purchase or of goodwill or of any profits which may be or might have been made from the undertaking or of any similar consideration.

(3) Where an undertaking of a licensee, being a local authority, is sold under sub-section (1) of Section 5, purchase price of the undertaking shall be such as the State Government, having regard to the market value of the undertaking at the date of delivery of the undertaking, may determine.

(4) Where an undertaking of a licensee is purchased under Section 6, the purchase price shall be the value thereof as determined in accordance with the provisions of sub-sections (1) and (2): Provided that there shall be added to such value percentage, if any not exceeding twenty per centum of that value as may be specified in the licence on account of compulsory purchase."

Section 7 is also relevant. It reads as follows:

"7. Vesting of the undertaking in the purchaser.- Where an undertaking is sold under Section 5 or Section 6, then upon the completion of the sale or on the date on which the undertaking is delivered to the intending purchaser under sub-section (3) of Section 5 or under sub-section (6) of Section 6, as the case may be, whichever is earlier -

(i) the undertaking shall vest in the purchaser or the intending purchaser, as the case may be, free from any debt, mortgage or similar obligation of the licensee or attaching to the undertaking: Provided that any such debt, mortgage or similar obligation shall attach to the purchase money in substitution for the undertaking;

(ii) the rights, powers, authorities, duties and

obligations of the licensee under his licence shall stand transferred to the purchaser and such purchaser shall be deemed to be the licensee: Provided that where the undertaking is sold or delivered to a State Electricity Board or the State Government, the licence shall cease to have further operation."

7. By the above mentioned Ordinance and the Act, the amendment which was carried out was that under Section 7-A instead of purchase price being the market value, it was now provided that the amount payable for the undertaking would be the book value of the undertaking. Thus, instead of computing the market value, there had to be computation on the book value.

8. It must be mentioned that the above mentioned Ordinances and Amendment Act were part of the policy of nationalisation of electric companies by the Union of India. Similar amendments were made by many States. Electric companies, all over India, were sought to be so purchased. Like the 1st Respondent, a number of other Electric Companies challenged the constitutional validity of the amending Act/Ordinance. The challenge was, inter alia, on the ground that the rights under Article 19(1)(f) and Article 31(2) were being violated. It was also claimed that the Amending Act/Ordinance was invalid as it had no reasonable direct nexus to the principles under Article 39(b) of the Constitution. It was also claimed that, in effect and substance, the law was not one for acquisition of electrical undertakings but was one to acquire a chose in action and to extinguish rights, which had accrued in the Electric Companies, to get the market price. It was contended that the right to get compensation accrued on the day the notice was given. It was contended that what was being acquired was the difference between the market price which the State was obliged to pay and the book value to which the liability was now sought to be limited. It was claimed that as the Act was merely a clock which the law was made to wear, to undo the obligations arising out of intended statutory sale, Article 31(c) was not attracted. It was also claimed that in any case, every provision of a statute was not entitled to protection of Article 31(c) but only those which are necessary for giving effect to the principles in Article 39(b) and accordingly the provision in the impugned law in relation to the determination of the amount do not attract Article 31(c). In all the matters it was claimed that the purchase price should be the market value.

9. A Constitution Bench of this Court in the case of Tinsukhia Electric Supply Co. Ltd. v. State of Assam, reported in (1989) 3 SCC 709, upheld the validity of the Act/Ordinance. This Court held that the Act had nexus with the principles in Article 39(b) and was therefore protected by Article 31(c). It was held that the Act was not a piece of colourable legislation. It was held that electric energy generated and distributed was a "material resource of the community" for the purpose and within the meaning of Article 39(b). It was held that the idea of distribution of natural resources in Article 39(b) envisages nationalisation. It was held that on an examination of the scheme of the impugned law the inescapable conclusion was that the legislature measure was one of nationalisation of the

undertaking and this law was eligible for and entitled to protection of Article 31(c). It was held that it was not possible to divorce the economic consideration or component from the scheme of nationalisation with which the former are inextricably integrated. It was held that the financial costs of a scheme lies at its very heart and cannot be isolated. It was held that with the provisions relating to vestiture of the undertaking in the State and those pertaining to the quantification of the amount are integral and unseparable parts of the scheme of nationalisation and do not admit of being considered as distinct provisions independent of each other. It was held that the provisions for payment of amount to the undertaking, by reducing the market value to book value, formed an integral part of the nationalisation scheme and that economic consideration for nationalisation was not justiciable. It was held that what was being acquired was the material resources of the community. The contention that immediately upon giving of the notice the rights got crystallised was negatived. It was held that the exercise of the option did not affect licensee's right to carry on business. It was held that the licensee's rights would be affected only when the undertaking was actually taken over. Similar view was taken in the cases of Maharashtra State Electricity Board v. Thana Electric Supply Co. & Ors., reported in (1989) 3 SCC 616, and Vellore Electric Corporation Ltd. v. State of Tamil Nadu, reported in (1989) 4 SCC 138.

10. Dr. Singhvi submitted that the present case would not be covered by the aforementioned Judgments because in all those cases the Ordinance/Act was prior to or on the same day that the respective undertakings were taken over. Dr. Singhvi submitted that in this case the Ordinance came on 4th February, 1975, i.e., almost 11 years after the takeover of the undertaking by the Government. He submitted that on 28th June, 1964 when the undertaking was taken over, Sections 6, 7 and 7-A, as they then stood, provided for payment of market value. He submitted that in 1962 Article 19(1)(f) and Articles 31(1) and 31(2) of the Constitution were there. He submitted that on that day there was no Article 31(c) in the Constitution of India. He submitted that the law on the subject was very clear. He submitted that the provisions of the Constitution and the law which must apply are those which were prevalent at that time in 1962.

11. In support of this submission he relied upon the authority in the case of Waman Rao v. Union of India, reported in (1981) 2 SCC 362. In this case the validity of the Maharashtra Agricultural Land (Ceiling and Holdings) Act 27 of 1961 and the subsequent amendment by Acts 21 of 1975, 47 of 1975 and 2 of 1976 were challenged. While considering this challenge this Court, inter alia, held as follows: "11. By Section 7 of the Constitution (Forth-fourth Amendment) Act, 1978 the reference to Article 31 was deleted from the concluding portion of Article 31-A(1) with effect from June 20, 1979, as a consequence of the deletion, by Section 2 of the 44th Amendment, of clause (f) of Article 19(1) which gave to the citizens the right to acquire, hold and dispose of property. The deletion of the right to property from the array of fundamental rights will not deprive the petitioners of the arguments which were available to them prior to the coming into force of the 44th Amendment, since the impugned Acts were passed before June

20, 1979 on which date Article 19(1)(f) was deleted."

12. He also relied upon Paragraph 15 of the Judgment in Thana Electric Supply Company's case (supra), wherein this Court has held that the contentions of the parties would require to be examined in the light of Articles 19(1)(f) and 31 as they stood at the relevant time. It was held that Articles 19(1)(f) and 31 were deleted later, but that such deletion did not affect the Constitutional position with reference to which the present case would require to be decided.

13. Dr. Singhvi also relied upon Ishwari Khetan Sugar Mills (P) Ltd. v. State of U.P., reported in (1980) 4 SCC 136. In this case the challenge was under the U.P. Sugar Undertakings (Acquisition) Act 23 of 1971. While considering this challenge the Constitution Bench of this Court held that as the legislation was put on the Statute Book on 27th August, 1971, the Court would have to consider it in the light of Article 31(2) as it stood on the relevant date. It was held that Article 31(2) as amended by the 25th Constitutional Amendment Act would not be attracted.

14. Dr. Singhvi submitted that the principles governing grant of compensation would, therefore, be those which are laid down by 11 Judge Bench of this Court in the case of R. Gvasjee Cooper and Ors. v. Union of India, reported in (1970) 1 SCC 248. In this case the vires of the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance 8 of 1969 and the Banking Companies (Acquisition and Transfer of Undertakings) Act 22 of 1969 was challenged. The challenge to the takeover of the banks was on the basis of Articles 14, 19 and 31 of the Constitution. This Court, inter alia, held that prior to the amendment of Article 31(2) the term "compensation" had been interpreted to mean "full indemnification". It was held that the law was that the expropriated owner was on that account entitled to market value of the property on the date of the deprivation of the property. It was held that even though Article 31(2) was amended with effect from 27th April, 1955 by the Constitution (Fourth Amendment Act, 1955), the expression "compensation" continued to mean "just equivalent" or "full indemnification". It was held that there was no dispute that Article 31(2) before and after amendment guaranteed a right to compensation for compulsory acquisition of the property and that by giving to the owner, for compulsory acquisition of his property, compensation which was illusory, or determined by the application of principles which were irrelevant, the constitutional guarantee of compensation was not complied with. It was, however, noted that after the amendment of the Article 31(2) it was not open to the Courts to call in question the law providing for compensation on the ground that it is inadequate. It was noted that there was a line of thought that a reasonable interpretation of this provision was that neither the principles prescribing the "just equivalent" nor the "just equivalent" could be questioned in Court on the ground of inadequacy of the compensation fixed or arrived at by the working of the principles. It was held that this meant that there could be many methods of valuation and that the application of different principles of valuation may lead to different results. The adoption of one principle may give a higher value and the adoption of another principle may give a lesser value, but nonetheless they were all principles on which compensation could be determined. It was held that

the Court could not say that the law should have adopted one principle and not the other for that would be a question relating to adequacy. It was held that, on the other hand, if a law laid down principles which were not relevant to the property acquired or to the value of the property at the time it was acquired, then the Courts could say that they were not principles contemplated by Article 31(2) of the Constitution. It was held that the line of thought providing for full indemnification and the line of thought stating that the principles of valuation could not be gone into by the Court both ultimately supported the view that the principles specified by law for determination of compensation was beyond the pale of challenge, if it was relevant to the determination of compensation and was a recognised principle applicable in determination of compensation for the property compulsorily acquired. It was held that the broad object underlining the principle of valuation was to award to the owner the equivalent of his property with its existing advantages and its potentialities. It was held that where there was an established market for the property acquired the problem of valuation presented a little difficulty but where there is no established market for the property, the object of the principle of valuation must be to pay to the owner for what he had lost including the benefit of advantages present as well as future. The Court then went on to set out certain methods of determination of compensation. In this behalf it laid down as follows: "94. The important methods of determination of compensation are: (i) market-value determined from sales of comparable properties, proximate in time to the date of acquisition, similarly situate, and possessing the same or similar advantages and subject to the same or similar disadvantages. Market-value is the price the property may fetch in the open market if sold by a willing seller unaffected by the special needs of a particular purchase; (ii) capitalization of the net annual profit out of the property at a rate equal in normal cases to the return from gilt-edged securities. Ordinarily value of the property may be determined by capitalizing the net annual value obtainable in the market at the date of the notice of acquisition; (iii) where the property is a house, expenditure likely to be incurred for constructing a similar house, and reduced by the depreciation for the number of years since it was constructed; (iv) principle of reinstatement, where it is satisfactorily established that reinstatement in some other place is bona fide intended, there being no general market for the property for the purpose for which it is devoted (the purpose being a public purpose) and would have continued to be devoted, but for compulsory acquisition. Here compensation will be assessed on the basis of reasonable cost of reinstatement; (v) when the property has outgrown its utility and it is reasonably incapable of economic use, it may be valued as land plus the break-up value of the structure. But the fact that the acquirer does not intend to use the property for which it is used at the time of acquisition and desires to demolish it or use it for other purpose is irrelevant; and (vi) the property to be acquired has ordinarily to be valued as a unit. Normally an aggregate of the value of different components will not be the value of the unit.

95. These are, however, not the only methods. The method of determining the value of property by the application of an appropriate multiplier to the net annual income or profit is a satisfactory method of valuation of

lands with buildings, only if the land is fully developed, i.e., it has been put to full use legally permissible and economically justifiable, and the income out of the property is the normal commercial and not a controlled return, or a return depreciated on account of special circumstances. If the property is not fully developed, or the return is not commercial the method may yield a misleading result."

It is to be noted that the Court itself laid down that these were not the only methods of valuation.

15. Based upon the above authority Dr. Singhvi submitted that even after the amendment of Article 31(2) the principle remained "just equivalent" meaning "full indemnification". He submitted that in this case in 1962, i.e. the unamended Sections 6, 7 and 7-A of the Indian Electricity Act, 1910 also provided for payment of market value. He submitted that, therefore, the principle laid down in Tinsukhia's case, Thana Electric Supply Company's case and Vellore Electric Corporation's case did not apply to this case. He submitted that all those cases were based upon Article 31(c) which did not stand on the Statute Book at the time when this undertaking was taken over by the Government. He submitted that in this case the market value have to be paid.

16. We have considered the submissions of Dr. Singhvi. Undoubtedly, the law which is to prevail is the law which was prevailing on the date of take over, i.e., 28th of June, 1964. It is also clear that on that day the Constitution (Twenty-fifth Amendment) Act had not been enacted and Article 31(c) was not there. Undoubtedly, in Cooper's case it has been held that even after amendment of Article 31(c) the term "compensation" meant "just equivalent" or "full indemnification". However, Cooper's case itself notes that there has been a change inasmuch as if the law pertains to change in the principles of the method of determination of compensation and the method is a recognized principle applicable in the determination of compensation and the principle is appropriate in determining the value of the property, then it would not be open to the Courts to question the valuation. Cooper's case also lays down that if several principles are appropriate and one is selected for determination of the value of the property to be acquired, selection of that principle to the exclusion of other principles is not open to challenge, for the selection must be left to the wisdom of the Parliament. Of course, the principles specified must be appropriate to the determination of compensation for an appropriate class of property sought to be acquired.

17. In Tinsukhia's case, this Court has gone into the question as to whether the principles would be appropriate even if Article 31(c) was not applicable. It ultimately held as follows: "96. Even if the impugned law did not have the protection of Article 31-C, a hypothesis on which contention (c) is based, the adequacy or inadequacy of the amount is not justiciable. The limitations of the courts' scrutiny explicit in Article 31(2), are referred to by Mathew, J. in the Kesavananda case (SCC p.889, para 1751) : " the word 'amount' conveys no idea of any norm. It supplies no yardstick. It furnishes no measuring rod. The neutral word 'amount' was deliberately chosen for the purpose. I am unable to understand the purpose in substituting the word 'amount' for the word 'compensation'



in the sub- article unless it be to deprive the court of any yardstick or norm for determining the adequacy of the amount and the relevancy of the principle fixed by law." 97. Referring to what might, yet to open to judicial scrutiny, under Article 31(b), Shelat and Grover, JJ. Observed in the Kesavananda case: (SCC p.457, para 591) "But still on the learned Solicitor General's argument, the right to receive the 'amount' continues to be a fundamental right. That cannot be denuded of its identity. The obligation to act on some principle while fixing the amount arises both from Article 31(2) and from the nature of the legislative power. For, there can be no power which permits in a democratic system an arbitrary use of power. But the norm or the principles of fixing or determining the 'amount' will have to be disclosed to the court. It will have to be satisfied that the 'amount' has reasonable relationship with the value of the property acquired or requisitioned and one or more of the relevant principles have been applied and further that the 'amount' is neither illusory nor it has been fixed arbitrarily, nor at such a figure that it means virtual deprivation of the right under Article 31(2). The question of adequacy or inadequacy, however, cannot be gone into." Justice Chandrachud observed: (SCC p.1000, para 2122) "The specific obligation to pay an 'amount' and in the alternative the use of the word 'principles' for determination of that amount must mean that the amount fixed or determined to be paid cannot be illusory. If the right to property still finds a place in the Constitution, you cannot mock at the man and ridicule his right. You cannot tell him: 'I will take your fortune for a farthing'." 98. All the same, the concept of "book value" is an accepted accountancy concept of value. It cannot be held to be illusory."

Even though Cooper's case has not been specifically referred to, in Tinsukhia's case, still the principles laid down in Cooper's case have been kept in mind and dealt with. Keeping those principles in mind, in Tinsukhia's case it has been held that the concept of book value is an accepted accountancy concept and that it cannot be held to be illusory.

18. Further, in Thana Electric Supply Company's case it has been held as : "15. As stated earlier, the principal controversy before the High Court was whether the provisions of the Amendment Act, 1976, which scaled down, quite drastically, the measure of the recompense for the taking over of the company's undertaking, were violative of Articles 14, 19(1)(f) and (g), and 31 of the Constitution of India, as contended by the company, or whether the Amending Act of 1976 had the protection of and attracted the provisions of Article 31-C of the Constitution, rendering the law immune from assailment on the ground of violation of fundamental rights. The contentions of the parties would require to be examined as the provisions of Articles 19(1)(f) and 31 stood at the relevant time. Articles 19(1)(f) and 31 were deleted later ; but that does not affect the constitutional position with reference to which the present cases would require to be decided."

Thus, in this case this Court proceeded on the basis that Articles 19(1)(f) and 31 applied to the facts of that case. The Court still set aside the Judgment of the High Court, which had upheld the challenge. This Court still held that the challenge on grounds of violation of Articles

14, 19 and 31 fails. The contention that compensation was not adequate and/or illusory was not accepted. In Vellore Electric Corporation's case also this Court considered the challenge to the change in the method of valuation from market value to book value on the basis of Articles 19(1)(g) and 31. In this case also it was held that such a contention was not available, as it had been negated in Tinsukhia's case.

19. In our view, the authorities in Tinsukhia's case, Thana Electric Supply Company's case and Vellore Electric Corporation's case fully cover the point urged by Dr. Singhvi. Even if the principles laid down in Cooper's case (supra) are applicable, still it has been held by this Court, in the above mentioned three cases that principles of valuation on book value is a well known concept of valuation and that the amount is not illusory. We, therefore, see no substance in this challenge.

20. Dr. Singhvi, however, submitted that the notice to take over the undertaking was given on November 30, 1962 and the undertaking was taken over on June 28, 1964. He submitted that on the date of takeover the rights of the 1st Respondent had crystallised. He submitted that the 1st Respondent, therefore, became entitled to receive the market value of the property. He submitted that as the amount payable had already got crystallised, a subsequent acquisition could only be acquisition of money. He submitted that on June 28, 1964 the vesting took place. He submitted that thereafter nothing more than payment of money was to be done. He submitted that by a retrospective amendment, made in 1975, money could not be compulsory acquired. He submitted that there could be no public purpose in acquisition of money and that such acquisition would amount to a forced loan. He submitted that the restrictions laid down by the retrospective amendment were not reasonable. He submitted that no reasons for such restrictions were given or could exist. He submitted that by the amendment the crystallised right to money was being taken away.

21. In support of his submission Dr. Singhvi relied upon the case of Madan Mohan Pathak v. Union of India, reported in (1978) 2 SCC 50. In that case there was a settlement between the management and the labour under which an annual cash bonus was to be paid to Class III and Class IV employees. By the Life Insurance Corporation (Modification of Settlement) Act, 1976 Class III and Class IV employees were sought to be deprived of the annual cash bonus that they were entitled to receive under the settlement. This Court held that the term 'Property' under Articles 19(1)(f), 31(1) and 31(2) had to be given the widest interpretation and refers to property of every kind, tangible or intangible, debts and chose-in-action. It was held that the chose-in-action could be compulsory acquired under Article 31(2). It was held that the right to receive the annual cash settlement was a right to property within the meaning of Article 31(2). It was held that extinguishments of the debt of a creditor with the corresponding benefit to the State or State owned/controlled Corporation would be transfer of ownership to the State and would amount to compulsory acquisition under Article 31(2). It was held that acquisition of money, debt and/or chose in action must be made to serve a public purpose. It was held

that the impugned Act was a pure and simple case of deprivation of the rights of the Class II and Class IV employees without any apparent nexus with any public interest. It was held that an acquisition of a chose-in-action could not be for the purpose of augmenting the revenues of the State or reducing State expenditure as that would not be a public purpose and would be violative of the constitutional guarantee embodied in Article 31(2). It was held that an acquisition of this nature amounted to a forced loan. Dr. Singhvi also relied upon the case of *State of Bihar v. Maharajadhiraja Sir Kameshwar Singh of Darbhanga* reported in (1952) S.C.R. 889.

22. We are unable to accept the submission. As has been held in Tinsukhia's case, Thana Electric Supply@@

Company's case and Vellore Electric Corporation's case what@@

has been acquired is not a chose-in-action or a debt. What has been acquired is the undertaking which dealt with material resource of the country. There was no crystallisation of any amount. The only right was a right to receive compensation which was to be worked out on certain principles. All that the amending Act has done is to change the method or principle on the basis of which the compensation was to be worked out. It has been held that the legislation is not a piece of colourable legislation. It has also been held, in the above mentioned cases, that the provisions for quantification of the amount payable to the undertaking form an integral and inseparable part of the nationalisation and do not admit of being considered as distinct provisions independent of each other. It has been held that the

economic costs of nationalization was not justiciable. In our view this case is fully covered by the judgments in Tinsukhia's case, Thana Electric Supply Company's case and Vellore Electric Corporation's case.

23. In this view of the matter, the Appeal is allowed. The Judgment of the Division Bench dated September 17, 1987 as well as the Judgment of the learned single Judge dated July 19, 1982 are set aside. The Writ Petition filed by the 1st Respondent stands dismissed. There shall be no order as to costs.