'Jo Vaada Kiya, Wo Nibhana Padega' - Promissory Estoppel Reaffirmed: Supreme Court Reiterates the Rules of State Accountability

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1. Introduction - When Government Promises Meet Constitutional Conscience

IN the world of taxation and industrial policy, few assurances matter more than those made by the State itself. Entrepreneurs plan investments, expand capacity, and take commercial risks on the faith of governmental incentives and policy declarations. But what happens when the State retreats from its own promises? The Supreme Court's landmark decision in *IFGL Refractories Ltd. v. Orissa State Financial Corporation & Ors. (SLP (C) No. 7013 of 2019; 2026 INSC 18)* - **2026-TIOLCORP-03-SC-MISC** answers this question with constitutional clarity-reaffirming that in a rule-of-law democracy, the State is not above its word.

2. Factual Background and the High Court's Approach

2.1 The dispute arose from the refusal of the State of Odisha to disburse capital investment subsidy and DG set subsidy **sanctioned** to the Magneco Metrel Plant ("MM Plant Unit") under the **Industrial Policy of 1989**. The appellant company challenged the action of the authorities in denying the benefits on the ground that incentives under the policy could be granted only once and that, post-amalgamation, the entitlement stood exhausted.

2.2 The High Court of Orissa dismissed the writ petition, endorsing the State's view that the incentives were not payable as the company had already availed subsidies under earlier policies. Aggrieved, the appellant approached the Supreme Court, contending that the denial amounted to a breach of the doctrines of **promissory estoppel** and **legitimate expectation.**

3. The Industrial Policy Framework of 1989

3.1 The Industrial Policy of 1989 was conceived with a dual objective-**promoting new industrial enterprises** and **strengthening existing undertakings**. To achieve this, the policy envisaged a bouquet of incentives, including capital investment subsidies, sales tax concessions, exemption from electricity duty, and support for technical know-how.

3.2 Clause 2.7 of the policy defined a *"new industrial unit"* with reference to investments made after the effective date of the policy, i.e., **01.12.1989**, thereby extending the benefit even to companies in existence prior to the policy, provided the investment in the particular unit was fresh and independent.

4. Submissions on Behalf of the Appellant

4.1 The appellant argued that the MM Plant Unit squarely fell within the definition of a *"new industrial unit"* under Clause 2.7, read with Clauses 2.2, 4.1 and 4.4 of the policy. The mere fact that the company existed prior to 1989 did not disqualify a newly established unit from receiving incentives.

4.2 It was further contended that once the subsidies had been **sanctioned**, the State was estopped from refusing their disbursal. The appellant had altered its position relying upon the governmental representation, thereby creating a **legitimate expectation** that the promised incentives would follow.

5. Submissions on Behalf of the Respondents

5.1 The State defended the High Court judgment, arguing that post-amalgamation, the appellant could not claim fresh incentives and that the overall subsidy limit under earlier policies had already been exhausted. According to the respondents, the refusal to disburse was consistent with fiscal discipline and policy interpretation.

6. Issues Before the Supreme Court

The Supreme Court framed three pivotal issues:

> 6.1 Whether the MM Plant Unit qualified as a **new industrial unit** under the Industrial Policy of 1989.
>
> 6.2 If so, whether the respondents were justified in denying the subsidies on the ground of exhaustion of benefits under previous policies.
>
> 6.3 Whether the respondents were **estopped** from refusing disbursal of the sanctioned incentives in view of the doctrines of **promissory estoppel** and **legitimate expectation**.

7. Determination of *"New Industrial Unit"* - A Functional and Pragmatic Test

7.1 The Court undertook a purposive interpretation of the policy and relied upon settled jurisprudence under Section 15C of the Income-tax Act, 1922 and Section 80-I of the Income-tax Act, 1961 to determine the contours of a *"new industrial undertaking."*

7.2 Reiterating the classic tests, the Court held that the decisive factors include:

> (i) whether the unit is a separate and distinct industrial entity;
>
> (ii) whether it involves fresh capital outlay;
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> (iii) whether it is physically and functionally independent; and
>
> (iv) whether it is capable of existing as a viable unit on its own.

7.3 Applying these principles, the Court concluded that the MM Plant Unit was not a mere expansion but a new industrial undertaking, fully entitled to the incentives under the 1989 policy.

8. Promissory Estoppel - From Equity to Constitutional Mandate

8.1 Turning to the heart of the controversy, the Supreme Court revisited the doctrine of promissory estoppel, tracing its roots to equitable principles in common law and its transformative journey in Indian jurisprudence.

8.2 The Court authoritatively restated the essential elements of the doctrine, holding that its application depends upon the satisfaction of the following conditions:

> (i) there must exist a legal relationship between the parties giving rise to rights and duties;
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> (ii) one party must have made a clear promise or representation that it would not enforce its strict legal rights arising out of that relationship;
>
> (iii) such promise must be made with the intention or knowledge that it would be acted upon by the other party;
>
> (iv) the other party must, in fact, have relied upon the representation and altered its position accordingly.

The Court further clarified that even where these ingredients are established, the doctrine does not operate mechanically; its application is always subject to the overriding consideration of equity, and the promisor may still be permitted to resile if it is not inequitable to allow such departure.

8.3 Applying these principles to the facts before it, the Supreme Court found that the State had not only created a legal relationship through its industrial policy framework but had also unequivocally represented that the appellant would be entitled to the sanctioned subsidies. The appellant, acting on such assurance, had reorganised its commercial affairs and investment decisions. To permit the State to withdraw at that stage would, therefore, amount to allowing constitutional unfairness, something the doctrine of promissory estoppel precisely exists to prevent.

8.4 Reinforcing this conclusion, the Court relied on the seminal judgment in *Motilal Padampat Sugar Mills v. State of U.P. (1979) 2 SCC 409* **=** ***2002-TIOL-1041-SC-CT***, reiterating that in Indian law, promissory estoppel is not confined to a defensive *"shield"* but operates as a substantive "sword"-a doctrine of equity elevated to a constitutional instrument against arbitrariness.

9. From Estoppel to Expectation - The Public Law Dimension

9.1 The Court then drew a nuanced distinction between **promissory estoppel** and **legitimate expectation**, noting that while English law traditionally treated them as operating in different spheres-private and public law respectively-Indian jurisprudence has evolved a more integrated and expansive approach.

9.2 Legitimate expectation, the Court observed, flows from the principles of fairness, non-arbitrariness, and transparency in State action. It may arise not only from express promises but also from consistent administrative practice and declared policy positions.

9.3 In the present case, the sanctioned subsidies generated a clear and enforceable expectation that the State would act in accordance with its own declared intent. Denial of benefits, therefore, was not merely a contractual breach but a constitutional infraction under Article 14.

10. Indian Jurisprudence - A Consistent Constitutional Thread

10.1 While surveying the long line of authorities beginning from *Motilal Padampat Sugar Mills v. State of U.P. (1979) 2 SCC 409* **=** ***2002-TIOL-1041-SC-CT*** through *Food Corporation of India v. Kamdhenu Cattle Feed Industries, Pawan Alloys, Noida Entrepreneurs Association, Monnet Ispat*, and culminating in the present case, the Supreme Court distilled the settled Indian test for the application of the doctrine of promissory estoppel. The Court reiterated that where one party, by its words or conduct, makes to another a clear and unequivocal promise intended to create or affect a legal relationship in the future, knowing or intending that it would be acted upon, and where such promise is in fact acted upon, the promisor is bound by it and cannot be permitted to resile if it would be inequitable to allow such withdrawal. Significantly, the Court clarified that it is not necessary for the promisee to demonstrate actual detriment; what is essential is that the promisee has altered its position in reliance upon the promise.

10.2 The Court further authoritatively articulated the governing test for the doctrine of **legitimate expectation** in Indian public law. It held that the Government and its instrumentalities, while administering public affairs, are constitutionally obliged to honour their policy statements and declared intentions, and to deal with citizens fairly, without arbitrariness or abuse of discretion. Policy representations cannot be disregarded capriciously or applied selectively. Any such unfairness, the Court observed, amounts to unreasonableness, which is but another facet of the principles of natural justice and is inextricably linked to the equality guarantee under **Article 14** of the Constitution of India.

10.3 By harmonising these doctrines, the Supreme Court reaffirmed that in Indian constitutional jurisprudence, equity is not a mere moral aspiration but a binding legal standard-one that restrains governmental power and ensures that promises made in the public domain do not dissolve into bureaucratic discretion.

11. A Judicial Indictment of Bureaucratic Lethargy

11.1 In one of the most striking portions of the judgment, the Court described the litigation as a ***"fine specimen of bureaucratic lethargy"***, warning that such conduct undermines the very purpose of industrial policy-investment, employment, and growth.

11.2 The Court categorically rejected the colonial mindset of the State as a sovereign dispenser of discretionary benefits, holding instead that in a constitutional democracy, the State is a trustee of public power, bound by standards of fairness and accountability.

11.3 It was emphasised that policies formulated and representations made by the State generate legitimate expectations that it will act consistently with what it proclaims in the public domain. Any curtailment of private entitlements must be justified by compelling public interest and must satisfy the test of proportionality.

12. Conclusion - From Policy Promises to Constitutional Performance

The decision in IFGL Refractories Ltd. is far more than a subsidy dispute; it is a constitutional reaffirmation of State credibility in economic governance. By breathing renewed life into the doctrines of promissory estoppel and legitimate expectation, the Supreme Court has sent an unmistakable message- public power is not a licence for inconsistency, and policy promises are not expendable political rhetoric.

For investors, the judgment restores faith that the law will protect legitimate reliance. For governments, it is a timely reminder that in a rule-of-law republic, the greatest asset of the State is not its coercive power, but its credibility and consistency.

In the final analysis, the Court has transformed a simple moral adage into a constitutional command:

"Jo vaada kiya, wo nibhana padega."

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