

Delhi High Court Clarifies Term Sheet Law in Oyo-Zostel Case

Citation: 2025: DHC:3661

Facts

OYO and Zostel Hospitality had signed a Term Sheet in 2015. According to this Term Sheet, Zostel's shareholders were supposed to receive 7% equity in OYO. However, this Term Sheet was non-binding, and therefore it could not be treated as a binding agreement. If it were binding, the parties would have needed to sign Definitive Agreements (such as the Business Transfer Agreement or the Shareholders' Agreement). Zostel argued that OYO had promised to complete the deal and that the term sheet was binding. But OYO argued that the Term Sheet was merely a non-binding term sheet, and therefore, there was no binding obligation. Arbitration began in 2018, and in 2021, the arbitral tribunal delivered an award in favour of Zostel. The tribunal stated that Zostel should get specific performance and that OYO must allot 7% equity. However, OYO challenged this arbitral award before the Delhi High Court under *Section 34* of The Arbitration and Conciliation Act, 1996.

Core Issues

1. Can a non-binding term sheet ever become a binding contract?
2. Can specific performance giving 7% shares be granted when no definitive agreements have been executed?
3. Is such an arbitral award contrary to the public policy of India?
4. Is it legally valid for the arbitrator to defer the specific performance to future proceedings without deciding it?

Arguments

Appellant (Zostel Argument)

A term sheet is non-binding, so the actions under it are also not binding. Therefore, even though the term sheet was non-binding, both the companies still carried out many activities with each other. For example, Zostel prepared to transfer its business to OYO. The terms were merged, information was shared, and both parties worked towards finalizing the deal. Zostel fulfilled its performance by providing OYO with all the necessary documents, data, integration work, etc. But later, OYO refused to sign the definitive agreements. Because OYO refused, even though Zostel had the right to specific performance, OYO did not complete the deal from its side. Hence, the tribunal stated that OYO must grant Zostel 7% equity.

Respondent (Oyo Argument)

A term sheet is an initial non-binding document. According to OYO, a term sheet is not considered binding. Neither party is obligated to perform anything under it. But according to Zostel, even though the definitive agreements were not executed, OYO should have treated the term sheet as binding and proceeded with the deal. OYO argues that binding obligations arise only from real legal contracts, such as definitive agreements. Real legal agreements include documents like the Shareholders' Agreement, Business Transfer Agreement, etc. The arbitrator ordered that Zostel be granted 7% equity and stated that OYO should allot shares accordingly. However, OYO argues that allotting shares could affect the rights of other shareholders. According to OYO, Zostel is entitled to equity only if the contracts had been signed, and since

they were not, no binding rights arise. Contracts cannot be considered binding unless formally executed. OYO further claimed that there are legal errors in the arbitral award and the arbitrator treating a non-binding document as binding is a major legal mistake; the prerequisites for granting specific performance were also not fulfilled. Therefore, the award is incomplete, impractical, and contrary to public policy.

Judgment

The Delhi High Court delivered a significant judgment in 2025 concerning the enforceability of non-binding term sheets. The Delhi High Court ruled in favour of OYO and set aside the arbitral award. The Term Sheet explicitly stated that it was non-binding. Binding obligations could arise only if definitive agreements were signed which never happened. A non-binding document cannot become binding merely on the basis of conduct. The Arbitrator failed to grant the specific performance and left it for future actions this is legally incorrect. Essential terms valuation, share structure, governance, etc. were not settled, so granting specific performance would violate public policy of India.

Conclusion

The Delhi High Court set aside the arbitral award. No binding contract existed between OYO and Zostel for specific performance. The arbitral award against OYO was set aside. Zostel's claim to a 7% stake in OYO was rejected. A non-binding term sheet cannot be treated as a binding contract. The award was incomplete, vague, and therefore unsustainable. This judgment reinforces that term sheets, , and heads of terms are not binding unless expressly stated in clear words.