



March 2026

Madras High Court observes that imposition of non-compete and/or non-solicitation clauses between hospitals and doctors are unlawful and opposed to public policy

In a recent ruling, the Madras High Court (“**Madras HC**”), in *MIOT Hospitals Private Limited vs. Dr. Balaraman Palaniappan*¹, observed that a hospital cannot treat a qualified doctor like a regular employee of an organisation or a workman employed in a factory and consequently impose on or bind such doctors to non-compete and/or non-solicitation clauses. The Madras HC held that a doctor, by his profession, cannot be construed as an ‘employee’ of a hospital by the very nature of the services he provides, and their independence can never be curtailed by binding them with such terms which are opposed to public policy and hence violative of Section 23 of the Indian Contract Act, 1872² (“**Contract Act**”).

Brief facts

MIOT Hospitals (“**Petitioner**”), being one of the leading hospitals in Chennai, entered into a professional agreement (“**Agreement**”) dated September 8, 2022 with Dr. Balaraman (“**Respondent**”), whereby the Respondent was appointed as a Consultant Cardio Thoracic Surgeon both in Chennai as well as any territory abroad on a secondment basis. After completing 2 (two) years and (seven) months of service, the Respondent sent a communication to the Petitioner expressing his intention to resign from the Petitioner hospital for personal reasons and consequently terminated the Agreement on April 21, 2025.

Pursuant to this, the Petitioner issued a legal notice to the Respondent alleging that the Respondent has committed breach of the non-compete and termination clauses in the Agreement. On June 4, 2025, the Petitioner replied denying the allegations. An attempt to amicably settle the disputes was also made but it was unsuccessful.

The Petitioner on July 4, 2025 issued a trigger notice under Section 21 of the Arbitration and Conciliation Act, 1996, to initiate arbitration proceedings as per clause 12.2 of the Agreement. Under these circumstances, the above petition came to be filed in the Madras HC, seeking to appoint a sole arbitrator.

¹ Arbitration O.P. (Com.Div.) No.708 of 2025, (decided on February 23, 2026)

² Section 23 of the Indian Contract Act, 1872 renders an agreement void where its object or consideration is unlawful, immoral, fraudulent, opposed to public policy, or prohibited by law.

Issue

The Madras HC adjudicated upon the following 2 (two) issues:

1. whether restrictive covenants such as post-termination non-compete and non-solicitation clauses are arbitrable and hence enforceable by hospitals against doctors; and
2. whether the Respondent served the required notice period as per the Agreement.

Findings and analysis

The Petitioner, on receipt of the Respondent's email correspondence indicating his resignation on April 21, 2025, replied by pointing out a violation of clauses 10.2 (Termination)³ and 8.3 (Non-compete)⁴ of the Agreement.

Madras HC, on careful consideration of the arguments placed on behalf of the Petitioner and the Respondent, held that a doctor, by virtue of his profession, cannot be treated like a regular corporate employee. The Madras HC observed that the restrictive covenants incorporated under Clause 8.3 of the Agreement it is appropriate only in contracts generally used by corporate/profit-making entities to enter into with their employees and that a similar contract cannot be used by hospitals to bind medical professionals, considering that hospitals are operated to serve patients and are in-turn highly dependent on such medical professionals to function and operate.

On the Petitioner's argument in relation to the Respondent joining a rival hospital and violating Clause 8.3 of the Agreement, the Madras HC drew an analogy to emphasise why non-compete clauses are impermissible in the medical profession. It observed that just as a law firm cannot restrict an advocate from practising independently or joining another firm after leaving, hospitals too cannot impose such restraints on doctors. Given the inherently personal and professional nature of such services, the Madras HC held that restricting a doctor from treating patients who voluntarily choose to follow them is unjustified and incompatible with the professional independence central to both legal and medical practice.

The Madras HC held that parties seeking appointment of an arbitrator must establish the existence of a valid agreement between them. Following the judgment of the Supreme Court in *Shin Satellite Public Co. Ltd. vs. M/s. Jain Studios Limited*⁵, the Madras HC held that since the instant Agreement is hit by Section 23 of the Contract Act as being opposed to public policy and by Section 27 of the Contract Act as being restrictive of undertaking a lawful profession, the Agreement stands voided to that extent and as a consequence the arbitration clause does not survive, in so far as adjudication or enforcement is considered.

With respect to the breach of clause 10.2 of the Agreement, the Madras HC held that the Respondent had initially indicated his intent to resign through letter dated April 29, 2025 to be relieved from his duties on April 29, 2025, and the email correspondence dated April 21, 2025 was to communicate the termination of the Agreement. Upon reviewing the documents, the Madras HC held that the Respondent had, in fact, served the required notice period. The petition was dismissed with INR 1,00,000 (Indian Rupees one lakh) payable by the Petitioner to the Respondent.

Conclusion

The Madras HC found that the post-termination non-compete and related restrictive clauses imposed on the Respondent were unenforceable, as they restrained a medical professional from carrying on his lawful profession after leaving the Petitioner's employment. The Madras HC further held that such clauses are contrary to Sections 23 and 27 of the Contract Act and cannot be indirectly enforced through arbitration. It also noted that Respondent had already

³ Clause 10.2 of the Agreement: The contractee may terminate this Agreement with prior written notice of at least 3 (three) months or by paying of 3 (three) months professional fees in lieu of the notice period.

⁴ Clause 8.3 of the Agreement: The contractee agrees and undertakes that for a period of 3 (three) years after the termination of the Agreement, the contractee will not join any rival hospital or set up a practice, in the vicinity of 15 (fifteen) km from the contractor's hospital in Chennai. In the event of breach, the contractee agrees to pay to the contractor, the liquidated damages as set out in clause 2.3 of the Agreement, without prejudice to any other rights and remedies of the contractor.

⁵ 2006 (2) SCC 628

complied with the contractual notice requirement, and therefore no genuine arbitrable dispute survived. By dismissing the petition, the Madras HC reaffirmed that commercial restraints cannot override professional freedom in the medical field, particularly where public interest and patient access to healthcare are involved.

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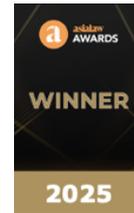
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