

AI Hallucinated Judgments: Supreme Court Warns Against AI-Generated Fake Case Citations

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AI Hallucinated Judgments Latest News

- Recently, the Supreme Court struck down a National Company Law Tribunal (NCLT) order. The order had relied on six court judgments as precedents.
- All six turned out to be problematic. Three judgments **did not exist at all**. The other three either didn't say what the tribunal claimed, or belonged to a different case entirely.

The Case Background

- In 2013, a company called Essel Infraprojects promised to repay a loan if another company failed to. This kind of promise is called a "corporate guarantee."
 - The loan itself was for Rs 200 crore. It was given by Jammu and Kashmir Bank to a different company, Pan India Utilities Distribution Company Ltd.

- Later, Pan India Utilities failed to repay the loan. Since Essel had promised to pay on its behalf, the bank came after Essel under the Insolvency and Bankruptcy Code (IBC).
 - Under this law, if a company cannot pay its debts, it can be taken to a special court for resolution. This is exactly what the bank did.
- Essel did not argue that the loan existed or that it had gone unpaid. Those facts were not in dispute. Instead, Essel argued something different: it said it was no longer responsible for this guarantee at all.

Why did Essel say this?

- In 2014, the company had gone through a restructuring. Part of its business was separated out (this is called a “demerger”), and then merged into another company (this is called an “amalgamation”).
- This restructuring was approved by the Bombay High Court. Essel claimed that when this happened, its old responsibility — including the guarantee — had passed on to the new company.
- So, Essel argued, it was no longer the one who should be held responsible.

Tribunal’s Judgement

- The tribunal handling the case, called the NCLT (National Company Law Tribunal), did not accept this argument. In 2024, it rejected Essel’s defence and allowed the bank’s case to proceed.
- Essel then appealed to a higher tribunal, the NCLAT (National Company Law Appellate Tribunal). But in September 2025, the NCLAT agreed with the NCLT’s decision.
- Importantly, the **NCLAT did not check whether the case references (citations) used by the NCLT were even real.**
- This became a major problem later, since those citations turned out to be fake or wrongly quoted.

The Fake Citations

- Three judgments simply didn’t exist:
 - ICICI Bank Ltd v Urban Infrastructure Real Estate Ltd (2019)
 - V S Dempo & Co Ltd v Reliance Communications Ltd (2021)
 - Sarbjit Singh v Union Bank of India (2022)
- Two judgments were real, but the quoted passages were not found anywhere in them:
 - Everest Kento Cylinders Ltd v Union of India (2015)
 - Canara Bank v N G Subbaraya Setty (2018)
- The sixth judgment cited was actually a different case altogether. The tribunal called it State Bank of India v Shree Ram Urban Infrastructure Ltd, but it was really M Subramaniam v S Janaki. The **quoted passage wasn’t in either judgment.**
- Importantly, neither party’s lawyers had cited these judgments. J&K Bank told the Supreme Court that its counsel never referred to them.
- The tribunal appears to have generated these citations through its **own AI-assisted research.**

What the Supreme Court Said

- The SC bench used strong language. They compared **AI hallucination in judicial work to a toxic gas leak** — “invisible, insidious, and catastrophic by the time anyone notices.”
- They warned that relying on AI could make judges dependent on it and erode independent judicial reasoning over time.
- The court held that even “an iota” of fake or hallucinated material in a decision is enough to set it aside.
- **A decision built on fabricated case law, the bench said, “is no decision at all.”**

Wider Directions Issued

- The Supreme Court asked the Bar Council of India to set up a committee. This committee will study **how AI is being used in litigation across courts**.
- The court also warned that lawyers citing AI-generated case law without verification could face **professional misconduct** proceedings.
- For now, the NCLT will decide the insolvency petition afresh. Both parties have been told to maintain status quo until then.

Not the First Such Incident

- The same bench had faced a similar problem in February 2026, in ***Gummadi Usha Rani v Sure Mallikarjuna Rao***.
- There, an Andhra Pradesh trial court had relied on four fake AI-generated judgments.
- The High Court had merely issued “a word of caution.” This time, the Supreme Court took a much harder line, calling such reliance not just an error but **potential “misconduct”** with legal consequences.

Conclusion

- This case marks a serious warning from India’s top court on AI use in judicial decision-making. It shows that AI hallucination isn’t just a drafting inconvenience — it can invalidate an entire legal order.
- The Supreme Court has made clear that courts and lawyers alike carry a duty to verify every citation, and that unchecked AI use in law can silently corrode the foundation of judicial reasoning itself.
- With the Bar Council now examining the issue formally, this ruling is likely to become a key reference point for how AI tools are regulated within India’s legal system going forward.

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