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When Banking on Fraud-Reporting Backfires: Delhi HC Quashes Criminal Defamation Case Against Bank CEOs

AUTHOR Shrishail Kittad, Rahul Sundaram

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Introductory

On 27 October 2025, a single-judge bench of the Delhi High Court pronounced a judgment that should find its way into every compliance manual and board-room discussion on reputational risk. The ruling quashes a criminal defamation complaint that a cash-strapped borrower, Rangoli International Pvt. Ltd., had managed to get registered against the Managing Directors and senior officials of four public-sector banks, Bank of Baroda, Oriental Bank of Commerce, Canara Bank and Corporation Bank. The borrowers cried “malicious slander”; the bankers replied “statutory duty”. Justice Neena Bansal Krishna agreed with the bankers, holding that branding a loan account as “fraud” in the RBI/CRILC portal, when done on the strength of central-agency letters and an internal probe, is not defamation, and companies being non-juridical entities can never possess the mens rea that the offence demands.

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The credit that turned sour

Rangoli International, an export house registered in 2009, enjoyed a ?250-crore consortium facility with Punjab National Bank as lead and the four petitioner banks as members. Between 2013 and 2014, the company allegedly began deviating from sanctioned limits; by March 2015, each bank had declared the account an NPA. The real trigger came in September 2014 when the CBI raided Rangoli’s premises while investigating a different company (Texcomash International). Although no charge-sheet was ultimately filed against Rangoli, the raid set off panic buttons in the lenders’ risk departments.

Forensic audit, CBI nudge and the “fraud” tag

A lender’s consortium engaged T.R. Chadha & Co. to carry out a forensic review. The auditors submitted an inconclusive report with no firm finding of fraud, yet simultaneous letters from CBI (June 2015) and RBI (July 2015) asked every bank to “examine the account for fraudulent activity and file a formal complaint” so that a regular case could be registered. Vigilance wings of the four banks re-examined shipping bills, airway bills and foreign-exchange transactions; they noticed 21 bogus airway bills, unsigned shipping documents, buyer-wise cover breaches and unauthorised forex debits. Acting under the RBI Master Direction on Fraud Classification, each bank independently passed board resolutions declaring the account “fraud” and uploaded the flag to the CRILC/FGM portal between August and October 2015.

The civil writ and the criminal counter-blast

Rangoli immediately moved a civil writ petition in the Delhi High Court seeking to quash the fraud tag and obtained an interim “no-precipitative-step” order. A day before that order, Canara Bank lodged a complaint with CBI; the agency registered FIR No. RCBD-1-2016. Feeling the heat, the company invoked Section 200 Cr.P.C., filing a private criminal complaint before the Metropolitan Magistrate, Rohini, naming six top executives including the then MD & CEOs Sh. P.S. Jayakumar (BOB), Sh. Animesh Chauhan (OBC), Sh. Rakesh Sharma & Sh. Ajit Kumar Das (Canara Bank) and Sh. Jai Kumar Garg (Corporation Bank) for criminal defamation under Sections 500/34 IPC and allied offences. After examining the director of Rangoli and a trade witness, the Magistrate issued summons on 21 January 2017, holding that prima facie reputation had been lowered.

Five petitions under Section 482 arguments in brief

The bankers approached the Delhi High Court under Section 482 Cr.P.C. to quash the complaint and the summoning order. Their common thread was that companies cannot be prosecuted for defamation because mens rea is an indispensable ingredient; vicarious liability cannot be fastened on officials without a statutory deeming provision; and the entire proceeding was an abuse of the criminal process designed to brow-beat them into re-scheduling a ?250-crore debt. They relied on a list of Supreme Court judgments Sunil Bharti Mittal, Maksud Sayed, Aneeta Hada, Maharashtra SEB v. Datar Switch-gear to contend that a director can be summoned only if personal involvement with criminal intent is explicitly pleaded, not merely by virtue of designation. Besides, public servants require prior sanction for offences involving mental element, a procedural safeguard absent here.

Rangoli, in reply, re-asserted conspiracy and malice. It argued that simultaneous e-mails to RBI/CRILC were publication sufficient to satisfy Section 499; the fraud tag had devastated its credit-worthiness, hence harm to reputation was self-evident; and good-faith immunity could be tested only after evidence was led. The company denied that the complaint was a pressure tactic, insisting that the Magistrate had applied his judicial mind and prima facie found defamation.

Court's analysis piece-by-piece demolition

Justice Krishna began by distilling the two core questions:

1. Does classifying an account as fraud on the directions of CBI/RBI and after internal audit amount to defamation?

2. Can corporate bodies or their officers be vicariously liable for the offence under Section 499/500 IPC?

On the first, the judge held that Exception 9 to Section 499 IPC shields good-faith accusations made to a lawful authority. The CBI letter expressly requested a "formal complaint" so that a regular case could be registered; the RBI letter advised examination "as per guidelines". The banks, therefore, were discharging a statutory duty, not indulging in private vendetta. Publication was limited to regulatory portals; there was no press release or media statement. Consequently, intent to harm reputation, the sine qua non of defamation, was absent.

On the second, the Court relied heavily on Zee Telefilms v. Sahara India (Calcutta HC) and Raymond Ltd. v. Rameshwar Das (Delhi HC) to hold that a company, being a juristic person, lacks a mind and can never possess the mens rea necessary for Section 499 IPC. Vicarious criminal liability cannot be presumed; it must be expressly created by statute illustrated by the specific deeming provision in Section 141 of the Negotiable Instruments Act. Since IPC contains no such provision, officers cannot be summoned merely because they chair board meetings or sign compliance returns. The complaint failed to point to a single overt act by any individual petitioner that showed personal animus or conscious publication with intent to malign.

The judge also flagged the absence of prior sanction under Section 197 Cr.P.C., observing that public servants can be prosecuted for offences involving mental element only after the competent authority says yes, a mandatory jurisdictional precondition. Finally, the court branded the continuation of the trial as an abuse of process, noting that the criminal complaint was filed during the pendency of a civil writ and appeared designed to coerce banks into softening their recovery stance.

Operative order

Allowing all five petitions, the Court quashed Complaint Case as well as the summoning order dated 21 January 2017 and all consequential proceedings. Pending applications were disposed of, leaving the banks free to pursue their civil remedies without the sword of criminal defamation hanging over their heads.

Concluding paragraph

The Rangoli judgment is a timely reminder that reputational grievances, however genuine they may seem, cannot be converted into criminal defamation unless the quintessential mental element is personally attributable to the accused. By re-affirming the mens rea barrier for juristic persons and stressing the need for explicit vicarious-liability provisions, the Delhi High Court has shielded good-faith compliance by banks, auditors and regulators from the chill of penal litigation. In an era where fraud reporting is mandatory and time-bound, the ruling lends courage to lenders who speak truth to power and to data bases without looking over their shoulder for a defamation summons.

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