



BANKING AND FINANCE

Public Land Cannot Be Auctioned Without Statutory Compliance: Supreme Court Sets Aside DRT Sale of DDA Plot

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Introduction

In a recent judgment, the Supreme Court of India, in *Delhi Development Authority v. Corporation Bank & Ors.*^[1], set aside the auction of Delhi Development Authority (DDA) land conducted by the Debts Recovery Tribunal (DRT), holding that the sale was tainted by non-compliance with statutory safeguards and breach of lease conditions. The Court emphasized that public land cannot be mortgaged or transferred without strict adherence to legal requirements, and any auction conducted in violation of such safeguards is invalid.

At the same time, the Court protected the interests of the bona fide auction purchaser, who had acted in good faith, by directing restitution with interest. By doing so, the ruling not only reaffirmed DDA's role as trustee of public property but also underscored the twin principles of accountability of banks and state authorities and protection of innocent third parties in property and recovery proceedings.

Background of the Case

The dispute arose from the allotment of a Delhi Development Authority (DDA) plot in Jasola, New Delhi, to Sarita Vihar Club in 2001 for the development of a sports and recreational facility. The allotment was made on a leasehold basis, with strict conditions, including a requirement that the plot could not be mortgaged without the prior written consent of the Lieutenant Governor of Delhi.

Despite this, the club mortgaged the property to Corporation Bank to secure a loan. The bank sanctioned the loan and accepted the lease deed as security, even though the mandatory consent had not been obtained. The DDA later clarified that only a limited "no objection" had been given to apply for a loan, but not for creating a mortgage.

When the club defaulted, Corporation Bank initiated recovery proceedings before the Debts Recovery Tribunal (DRT) under the Recovery of Debts Due to Banks and Financial Institutions Act, 1993. The DRT ordered the auction of the plot in November 2012, where **M/s Jay Bharat Commercial Enterprises Pvt. Ltd.** emerged as the highest bidder, depositing over ₹13 crores.

DDA objected to the auction on multiple grounds:

- The mortgage itself was void as it was created without the required approval.
- DDA's statutory rights, including recovery of unearned increase and ground rent, had not been accounted for.
- The auction notice failed to disclose encumbrances or lease conditions, thereby misleading prospective bidders.

Although DDA filed writ petitions before the Delhi High Court, its claims were dismissed, with the Court holding that principles akin to *res judicata* barred re-litigation of issues already raised. This prompted DDA to approach the Supreme Court, challenging the legality of the auction and seeking restoration of its rights over the property.

Issues Before the Supreme Court

1. Whether the auction sale conducted by the DRT without considering DDA's statutory claims and lease terms was valid.
2. Whether the principles of *res judicata* barred DDA from re-agitating its challenge after an earlier writ petition.
3. What relief should be granted to the bona fide auction purchaser who had paid substantial money in good faith.

Court's Findings

The Supreme Court, after reviewing the rival submissions and statutory framework, made the following key findings:

1. **Invalid Auction Process:** The e-auction conducted by the DRT in 2012 was legally flawed. The proclamation of sale failed to disclose DDA's statutory rights such as recovery of unearned increase and lease conditions contravening **Rule 53 of the Second Schedule to the Income Tax Act, 1961** and **Rule 16 of the Income Tax (Certificate Proceedings) Rules, 1962**. Hence, the auction, confirmation of sale, and sale certificate could not stand.
2. **No Bar of Res Judicata:** The Delhi High Court erred in dismissing DDA's writ petition on the ground of *res judicata*. Since the earlier petition had been withdrawn on the basis of the bank's undertaking that the auction would comply with lease terms, DDA had a fresh cause of action when the auction was actually held in violation of those terms.

3. **Bank's Responsibility:** The Court noted that Corporation Bank sanctioned the loan despite knowing that the property was leasehold and subject to restrictions. The bank's failure to exercise due diligence and its reliance on an invalid mortgage directly contributed to the unlawful auction.
4. **Protection of Auction Purchaser:** The auction purchaser, having acted in good faith and without fault, could not be penalized for the illegality of the process. Invoking the principle of **restitution**, the Court directed that the purchaser's money be refunded with interest.
5. **Restitution as a Moral Imperative:** The Court stressed that no party should be unjustly enriched at the expense of another. Since the purchaser was deprived of the use of its funds, the bank was ordered to return the deposit with **9% annual interest** within one month.

Legal Significance

The Supreme Court's decision carries far-reaching implications for property law, banking practices, and recovery proceedings:

1. **Sanctity of Lease Conditions:** The ruling reinforces that leasehold public land cannot be mortgaged, transferred, or sold in contravention of the terms of allotment. Any transaction ignoring these restrictions is void and unenforceable.
2. **Due Diligence Obligations of Banks:** Financial institutions must exercise strict prudence before sanctioning loans against leasehold properties. Failure to verify statutory permissions can render mortgages invalid and expose banks to liability.
3. **Limits on Res Judicata in Writ Proceedings:** The Court clarified that the withdrawal of an earlier writ petition based on an undertaking does not bar subsequent litigation when fresh violations occur. This ensures that procedural technicalities do not override substantive justice.
4. **Restitution as an Equitable Principle:** The judgment highlights restitution as a guiding principle in cases where innocent third parties suffer due to illegality by others. By compensating the auction purchaser with interest, the Court balanced equity with legality.
5. **Strengthening Public Trust:** By safeguarding DDA's role as custodian of public land while protecting the interests of a bona fide purchaser, the ruling enhances accountability of both state authorities and banks in property transactions.

Author's View

This judgment reflects the Supreme Court's careful attempt to strike a balance between protecting public property and ensuring fairness to private actors. On one hand, it sends a strong message that statutory safeguards governing leasehold land are non-negotiable and that banks cannot bypass due diligence when advancing loans. On the other, it shows judicial sensitivity by shielding an innocent auction purchaser from financial loss through the principle of restitution.

The ruling is significant because it not only upholds the DDA's role as trustee of public land but also compels financial institutions to reassess their risk management and compliance practices. By clarifying that res judicata cannot shield repeated violations when new causes of action arise, the Court has reaffirmed that substantive justice prevails over procedural barriers.

Going forward, the decision is likely to influence both banking prudence in lending against leasehold properties and the conduct of recovery proceedings by tribunals, ensuring that statutory rights of public authorities are not undermined in the process.

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[1] Civil Appeal No. 11269 of 2016

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