



BANKING AND FINANCE

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The Limits of Criminal Law in Debt Recovery: Examining the One Time Settlement Conundrum Through the Lens of Section 482 Cr.P.C.

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PUBLISHED 2 March 2026

The intersection of commercial banking transactions and criminal law has long presented complex challenges for the Indian judiciary, particularly when failed financial settlements give rise to allegations of cheating and criminal breach of trust. The Delhi High Court's recent judgment in *Mahender Singh v. State (Govt of NCT of Delhi)*, delivered on 23rd February 2026 by Justice Neena Bansal Krishna, provides significant clarity on the circumstances under which criminal proceedings arising from banking disputes may be quashed under the inherent powers of the High Court conferred by Section 482 of the Code of Criminal Procedure, 1973. This case, bearing citation 2026:DHC:1584 and arising from four connected petitions (CRL.M.C.2499/2018, 2500/2018, 2728/2018, and 2738/2018), establishes important precedents regarding the distinction between civil and criminal remedies in the context of failed One Time Settlements, the evidentiary requirements for establishing criminal breach of trust by bankers, and the judicial approach towards documentary antedating in commercial transactions.

The factual matrix of this case traces back to a banking relationship between Central Bank of India and two corporate entities, Cosco Sales & Services Private Limited and Cosco Blossoms Private Limited, represented by their Authorized Managing Director, Suresh Goel. These companies had availed overdraft facilities from the Janpath branch of Central Bank of India in New Delhi, which subsequently turned into Non-Performing Assets during the financial year 1999-2000. The Bank initiated recovery proceedings by filing two Original Applications before the Debt Recovery Tribunal, New Delhi, bearing numbers 159 of 2002 and 160 of 2002. These proceedings culminated in Recovery Certificates issued on 17th August 2012, wherein decrees were passed for amounts aggregating approximately Rs.2.57 crores and Rs.1.18 crores respectively, both carrying interest at the rate of sixteen percent per annum. By March 2013, the total outstanding liability had escalated to approximately Rs.13 crores, creating substantial financial exposure for both the lending institution and the borrower entities.

In an effort to resolve this protracted debt situation, senior officials of Central Bank of India approached Suresh Goel in January 2013 with a proposal for One Time Settlement. At that juncture, Goel had already deposited Rs.10 lakhs in a 'No-Lien' account maintained with the Bank. Following negotiations, an additional sum of Rs.48 lakhs was deposited by Goel on 8th February 2013, bringing the total deposit to Rs.58 lakhs. The Bank responded by issuing a formal Sanction Letter dated 27th February 2013, which proposed a comprehensive settlement of all outstanding dues amounting to Rs.6 crores. According to the terms of this settlement, the Rs.58 lakhs already deposited would be adjusted towards the settlement amount, while the balance of Rs.5.42 crores was required to be paid by 31st March 2013, carrying interest at the base rate plus two percent simple interest on reducing balance. The Sanction Letter contained a critical default clause stipulating that in the event of non-payment, the compromise would stand automatically cancelled, all concessions would be treated as withdrawn, and the original decree would remain executable as if no settlement had ever been entered into.

The One Time Settlement failed when Suresh Goel could not arrange the balance payment of Rs.5.42 crores by the stipulated deadline of 31st March 2013. Consequently, the settlement stood cancelled by operation of the contractual terms, and the original liability of approximately Rs.13 crores stood revived. On 26th April 2013, Goel addressed a communication to the Bank requesting the return of the Rs.58 lakhs that had been deposited, taking the position that since the settlement had failed, the deposit should be refunded. The Bank's response came in the form of a letter dated 20th April 2013, which was actually received by Goel on 27th April 2013, informing him that the entire debt had been absolutely assigned to UV Asset Reconstruction Company Limited (UVARCL) through an Assignment Agreement executed on 20th April 2013. This communication formed the basis of Goel's subsequent allegations that the Bank and its officials had conspired to misappropriate his deposited funds.

Suresh Goel's grievance centred on three primary allegations. First, he contended that the Bank had failed to refund the Rs.58 lakhs deposited in the 'No-Lien' account, thereby committing criminal breach of trust. Second, he alleged that the Assignment Agreement dated 20th April 2013 was fabricated and antedated, pointing to the fact that stamp paper for the agreement was purchased only on 30th July 2013 and the document was registered on 12th August 2013, several months after its purported execution date. Third, he claimed that officials of UVARCL had approached him in January 2013, before the execution of the Assignment Agreement, falsely representing that they had been sent by Central Bank of India to negotiate settlement, which indicated a pre-existing conspiracy to cheat him of his money. Based on these allegations, Goel filed complaints with the police on 16th October 2013 and 20th November 2013, but when no action was taken, he resorted to filing a private complaint under Section 200 of the Code of Criminal Procedure on 16th October 2013, alleging offences under Sections 406, 409, 420, 120B, and 34 of the Indian Penal Code.

The Metropolitan Magistrate at Patiala House Courts proceeded to take pre-summoning evidence, wherein Suresh Goel examined himself as the first witness and exhibited various documents supporting his allegations. Upon consideration of this evidence, the learned Magistrate issued a summoning order dated 28th June 2017, directing the appearance of the bank

officials, namely Mahender Singh (Assistant General Manager of the Asset Recovery Branch), BNS Ratnakar (Assistant General Manager), and Mohan Tanksale (General Manager of Central Office, Mumbai), as well as the Central Bank of India itself, to face trial for offences under Sections 420, 409, and 120B of the Indian Penal Code. Rather than appearing before the trial court, these accused approached the Delhi High Court under Section 482 of the Code of Criminal Procedure, seeking quashing of the complaint and the summoning order.

The petitioners advanced several substantial grounds in support of their quashing application. They contended that the learned Magistrate had committed a jurisdictional error by issuing summons without properly considering whether the averments in the complaint, even if taken at face value, disclosed the commission of any cognizable offence. They argued that the deposit of Rs.58 lakhs in the 'No-Lien' account, once accepted under the terms of the Sanction Letter, ceased to be property held in trust and became liable for adjustment towards the outstanding debt in accordance with the contractual terms. Consequently, they maintained that no case of entrustment, which is the essential foundation for criminal breach of trust under Section 405 of the Indian Penal Code, could be established. The petitioners further submitted that the dispute was essentially civil in nature, relating to the adjustment or refund of money arising from contractual terms, and that Suresh Goel had already invoked his civil remedy by filing a suit, which was pending adjudication. They emphasized that the offence of cheating under Section 420 requires fraudulent or dishonest intention at the inception of the transaction, which was completely absent in the present case where all terms were transparently communicated. Additionally, they pointed out that other accused persons from UVARCL had been dropped from the array of parties after settlement with the complainant, which demonstrated that the allegations lacked bona fides and were motivated by extraneous considerations. They also relied on the Supreme Court's decision in *SMS Pharmaceuticals Limited v. Neeta Bhalla* to argue that liability must arise from specific conduct rather than merely holding an office or position in a company.

Suresh Goel, appearing as respondent number two, filed a detailed counter-affidavit resisting the quashing petitions. He raised preliminary objections regarding the maintainability of the petitions, pointing out that they had been filed after a delay of ten months without any satisfactory explanation. He contended that since the summoning order was revisable, the proper remedy lay under Sections 397, 399, and 401 of the Code of Criminal Procedure rather than under the inherent powers of Section 482. He characterized the petitions as an abuse of process designed to circumvent the limitation period applicable to revision petitions. On merits, he alleged that the petitioners had deliberately concealed material facts, particularly that the Rs.58 lakhs was never actually credited to the accounts of his companies. He emphasized the suspicious circumstances surrounding the Assignment Agreement, noting that the stamp paper was purchased months after the purported execution date, and asserted that prima facie offences of cheating, criminal breach of trust, and conspiracy were clearly established. He relied on the landmark decisions in *State of Haryana v. Bhajan Lal* and *R.P. Kapur v. State of Punjab* to support his contention that the petitions deserved dismissal.

The Delhi High Court, after hearing the rival submissions and perusing the complete record, undertook a meticulous analysis of whether the allegations disclosed prima facie criminal offences or merely constituted a civil dispute. The Court first noted that the One Time Settlement had admittedly failed due to non-adherence to its terms by the complainant himself. This factual admission had significant legal consequences, as the contractual terms explicitly provided for automatic cancellation and adjustment of deposits upon default. The Court observed that the Rs.58 lakhs deposited in the 'No-Lien' account, while initially held for settlement purposes, became liable for adjustment towards the outstanding debt once the settlement failed. This adjustment, the Court held, could not by any stretch of imagination constitute criminal breach of trust or cheating, as the Bank was merely exercising its contractual and statutory rights.

Regarding the allegation of cheating through antedated documents, the Court accepted the petitioners' explanation that the Assignment Agreement dated 20th April 2013 represented the effective date of the commercial transaction, while the subsequent purchase of stamp paper in July 2013 and registration in August 2013 were merely procedural formalities completing the legal documentation. The Court noted that neither UVARCL nor the Bank had disputed entering into the agreement on 20th April 2013, and in the absence of any allegation demonstrating that the agreement was executed with pre-existing conspiracy to cheat, no offence could be prima facie presumed. The Court emphasized that the assignment of debts to asset reconstruction companies is a legitimate business decision undertaken under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, and cannot be criminalized merely because the borrower is dissatisfied with the outcome.

The Court's analysis of the criminal conspiracy allegation was equally significant. While Suresh Goel had asserted that UVARCL officials approached him in January 2013 claiming to represent the Bank, the Court found that this circumstance, even if assumed to be true, did not disclose the essential ingredients of criminal conspiracy under Section 120B of the Indian Penal Code. The Court reasoned that since the officials had represented themselves as acting for and on behalf of Central Bank of

India, this indicated that they were not acting in their independent capacity, and no agreement to commit an illegal act could be inferred from mere negotiations. The absence of material indicating a conspiracy to cheat or misappropriate funds was fatal to this allegation.

The Court's ultimate conclusion rested on the fundamental principle that criminal law cannot be employed as a tool for debt recovery. The Court observed that at best, the dispute related to adjustment or refund of money arising from contractual terms, for which the complainant had already invoked his civil remedy by filing a suit. The Court reiterated that for an offence of cheating to be made out, there must be fraudulent or dishonest intention at the inception of the transaction, which was conspicuously absent in the present case where all terms were clearly conveyed and accepted. Similarly, the essential ingredient of entrustment for criminal breach of trust was missing, as the Bank's right to adjust the deposited amount arose from the contractual terms agreed upon by the complainant himself.

In its concluding observations, the Court emphasized that even if the entire content of the complaint was admitted to be correct and true, it still did not disclose any criminal offence of cheating, criminal breach of trust, or conspiracy. The Court found that no specific fact gave rise to any presumption of mala fides between Central Bank of India and UVARCL, and that the commercial decision to assign debts could not be criminalized without concrete evidence of dishonest intention. Accordingly, the Court allowed the petitions and quashed the complaint under Section 200 of the Code of Criminal Procedure along with the summoning order dated 28th June 2017 and all proceedings emanating therefrom.

This judgment carries significant implications for banking law and criminal jurisprudence in India. It reinforces the established legal position that commercial disputes, particularly those arising from failed financial settlements, must be resolved through civil remedies rather than criminal prosecution. The Court's acceptance of antedated commercial documents, when explained as procedural formalities, provides practical guidance for business transactions where documentation may follow the effective date of agreement. The decision also clarifies that banker's lien and contractual rights of adjustment do not constitute criminal breach of trust, thereby protecting financial institutions from frivolous criminal litigation when exercising legitimate rights under loan agreements. Most importantly, the judgment serves as a deterrent against the misuse of criminal process for debt recovery, ensuring that the precious resources of the criminal justice system are reserved for genuine cases involving moral turpitude and social harm, rather than being diverted into commercial disagreements that properly belong to the civil courts,

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