

RECOVERY

SARFAESI

Gujarat High Court Affirms Exclusivity of DRT Jurisdiction Under SARFAESI Act: A Critical Analysis of Varun Procon Pvt. Ltd. v. State Bank of India

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Introduction

The enforcement of security interests under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) has consistently generated significant judicial discourse regarding the delineation of jurisdiction between Civil Courts and Debt Recovery Tribunals (DRTs). The Gujarat High Court, in a judgment delivered by Justice Niral R. Mehta on 9th January 2026, has substantially contributed to this jurisprudential landscape by unequivocally affirming the exclusive jurisdiction of DRTs under Section 17 of the SARFAESI Act. The case of Varun Procon Pvt. Ltd. and Ors. v. State Bank of India and Ors., R/Appeal from Order No. 209 of 2025, (2026) ibclaw.in 211 HC, arose from an appeal challenging the dismissal of an interim injunction application by City Civil Court No. 23, Ahmedabad. This judgment clarifies the scope of Section 34's jurisdictional bar and also establishes that allegations of fraud, when essentially challenging security interest enforcement, cannot circumvent the statutory framework mandating DRT adjudication. The decision carries profound implications for secured creditors, corporate guarantors, and the broader banking ecosystem by reinforcing the legislative intent to create an efficient, non-fragmented recovery mechanism outside traditional civil court processes.

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Factual Matrix and Procedural History

The appellants before the High Court comprised Varun Procon Private Limited, a company engaged in real estate development and construction activities, along with its directors Mr. Ritesh D. Kotak and Mr. Nilesh D. Kotak. The respondent, State Bank of India, Bareja Branch, Ahmedabad, had extended financial assistance amounting to ₹16.50 crores to M/s. Satsang Infrabuild Private Limited, consisting of a cash credit facility of ₹15.00 crores and a term loan of ₹1.50 crores. The transaction structure involved multiple layers of security, with Varun Procon Private Limited and Astha Organisers Private Limited acting as corporate guarantors, while the Kotak brothers stood as personal guarantors alongside other individuals. The security package included a corporate guarantee agreement executed on 10th January 2015 and a registered mortgage deed dated 12th January 2015, bearing Serial No. 343 of 2015 before the Sub-Registrar, whereby the appellant company purportedly created a mortgage over its properties in favor of the Bank.

The genesis of the dispute, as narrated by the appellants, involved complex familial and corporate dynamics. Defendant No. 5, Mr. Krunal H. Patel, who was the nephew of Plaintiff Nos. 2 and 3, had been appointed as a Director of the appellant company on 31st October 2014. According to the appellants' version, taking advantage of strained matrimonial relations involving Plaintiff No. 2, Mr. Krunal Patel allegedly removed all original title documents including sale deeds and other title documents relating to the suit property from the residence of Plaintiff No. 2. At the material time, Plaintiff No. 2 was detained at Navrangpura Police Station and was restrained from entering the Navrangpura area pursuant to an order passed by the High Court. The appellants further alleged that the Bank accepted the mortgage security without conducting proper due diligence regarding title verification or authority of the executing person, and without obtaining any title clearance report, suggesting collusion between Bank officials and other defendants. Plaintiff No. 2 claimed to have discovered the alleged fraudulent mortgage deed only upon the lodging of a complaint at Navrangpura Police Station.

The procedural trajectory of the dispute reveals a protracted and complex litigation history. The borrower's loan account was classified as a Non-Performing Asset on 24th December 2015, following which the Bank issued a demand notice under Section 13(2) of the SARFAESI Act on 28th December 2015. On 8th January 2016, the Bank initiated recovery proceedings by filing Original Application No. 8 of 2016 under Section 19 of the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 (RDDB Act) before the Debt Recovery Tribunal. The DRT passed an interim order on 12th January 2016 in favor of the Bank, which order was never challenged by the appellants despite their awareness of such proceedings. Significantly, on 11th April 2016, the appellants instituted Civil Suit No. 778 of 2016 before the City Civil Court, Ahmedabad, seeking a declaration that the mortgage deed dated 12th January 2015 was illegal and void, asserting that the defendants had no right, title or interest in the

suit property, and praying for permanent injunction. The plaint conspicuously omitted any disclosure regarding the pending proceedings before the DRT under the RDDB Act.

The Bank appeared in the civil suit and filed its written statement on 31st December 2016, primarily contending that the Civil Court lacked jurisdiction in view of the initiation of proceedings under the SARFAESI Act, and asserting the validity of the mortgage creation. Following the filing of written statements, the matter experienced significant procedural delays due to administrative reasons, remaining before vacant courts for a substantial period from June 2016 to December 2020 as it was transferred between various courts. The injunction application under Order XXXIX Rules 1 and 2 of the Code of Civil Procedure, 1908, which had been filed in 2016, remained dormant and was not effectively pressed for nearly nine years. The appellants revived the injunction application only after the Bank obtained significant procedural success under the SARFAESI Act framework. Specifically, on 3rd January 2025, the Bank initiated fresh proceedings under the SARFAESI Act by issuing a notice under Section 13(2) to the borrower and corporate guarantors, which was served on 8th January 2025. Appellant No. 2 responded to this notice through his advocate on 15th March 2025, but the Bank communicated its reasons for not accepting the objections on 20th March 2025. When the Bank attempted to affix possession notice on 4th April 2025, its authorized officer was obstructed, prompting the Bank to file Criminal Miscellaneous Application No. 5169 of 2025 under Section 14 of the SARFAESI Act on 14th May 2025 for enforcement of its security interest. The competent court allowed this application by order dated 18th July 2025, permitting the Bank to take physical possession of the secured assets. It was only pursuant to this order, when the Court Commissioner issued notice for taking possession, that the appellants pressed into service the pending injunction application in the civil suit. The learned City Civil Court No. 23, Ahmedabad, after considering the pleadings and submissions, dismissed the injunction application at Exh. 7 by order dated 29th September 2025, leading to the present appeal under Order XLIII Rule 1(r) of the Code of Civil Procedure, 1908.

Submissions of the Parties and Issues Framed

The High Court with the consent of the parties, the Appeal from Order was taken up for hearing at the stage of admission given the limited scope of issues involved.

The appellants' submissions, mounted a multi-pronged attack on the impugned order. The primary contention asserted that the order was *ex facie* illegal, arbitrary and contrary to settled provisions of law deserving to be quashed. At the foundational level, it was submitted that there existed no resolution of the appellant company authorizing creation of the mortgage or empowering any person to execute such mortgage, and in view of Section 179 of the Companies Act, which mandates Board approval for creating charges on company assets, the mortgage was void and non est in law. The appellants emphasized that the so-called resolution produced before the High Court bore the signature of a person who was not a Director at the relevant time, rendering it invalid for compliance with Section 179. It was further contended that the Bank had failed to exercise due diligence before sanctioning and disbursing the loan, and had the Bank verified records properly, it would have discovered the absence of valid authorization. The appellants particularly assailed the trial court's finding that a Director, being treated as a 50% owner of the company, could validly deal with 50% of the company's assets, submitting that such reasoning was wholly erroneous and contrary to the Companies Act. Regarding the nature of the dispute, it was submitted that the principal challenge involved allegations of fraud and collusion in the execution of the mortgage deed for a loan granted to a third party, and the Civil Court being competent to adjudicate such issues ought to have protected the suit property by granting injunction. The appellants relied heavily on the Supreme Court decision in *Central Bank of India v. Prabha Jain* [(2025) 4 SCC 38] to support the proposition that civil courts retain jurisdiction in matters involving fraudulent transactions. The balance of convenience was argued to clearly favour the appellants, and it was submitted that permitting SARFAESI measures to proceed without protecting the property would render the civil suit infructuous.

The Bank's submissions, provided a comprehensive jurisdictional and procedural defence of the impugned order. The foundational argument asserted that the trial court ought to have rejected the injunction application on the ground of lack of jurisdiction, as the Bank had raised a preliminary objection in its written statement regarding the competence of the Civil Court to entertain the suit. According to the Bank, the DRT alone possessed jurisdiction to adjudicate the grievances raised, and the suit itself was liable to be rejected under Order VII Rule 11(d) of the Code of Civil Procedure, 1908. The Bank emphasized that prior to filing the civil suit, it had already initiated recovery proceedings before the DRT under the RDDB Act, wherein an interim order was passed against the appellants, which was neither challenged nor complied with by the appellants. The filing of the civil suit without pursuing the remedy before the DRT was characterized as an abuse of process of law intended solely to delay recovery proceedings. The Bank further contended that the appellants had not approached the Civil Court with clean hands,

pointing to the deliberate suppression of material facts regarding the pendency of DRT proceedings in the plaint. Given the limited scope of Civil Court jurisdiction in matters of this nature, the ultimate rejection of the injunction application was justified even if the reasoning required substitution. Substantively, it was contended that the challenge to the validity of the mortgage and creation of security squarely fell within the DRT's jurisdiction under Section 17 of the SARFAESI Act, and the appellants as corporate guarantors fell within the definition of "borrower" under Section 2(f) of the Act. Once measures under Section 13 were initiated, any grievance could only be raised before the DRT, which possessed ample power to examine even the validity of the security interest. Reliance was placed on Section 34 of the SARFAESI Act, contending that the jurisdiction of the Civil Court was expressly barred in respect of matters which the DRT or Appellate Tribunal was empowered to determine, and no injunction could be granted against actions taken or to be taken under the Act. The Bank distinguished the Prabha Jain case, pointing out that the facts were entirely different as possession had already been taken and the principal relief related to the validity of a sale deed, whereas in the present case possession had not yet been taken and there was no direct challenge to the statutory measures taken under the SARFAESI Act. The nine-year dormancy of the injunction application, revived only after the Section 14 order was obtained, was highlighted as evidence of the appellants' dilatory tactics.

The High Court, after careful consideration of these rival submissions, framed two precise points for determination: first, whether the learned trial court could have granted an injunction which would amount to granting stay against the measures taken under Section 14 of the SARFAESI Act, 2002; and second, whether under Section 17 of the SARFAESI Act, 2002, the learned DRT has jurisdiction to decide the validity of a deed or document by which security interest is created.

Statutory Framework and Judicial Analysis

The High Court's analysis commenced with a comprehensive examination of the relevant statutory provisions of the SARFAESI Act, 2002. Section 2(f) defines "borrower" to include not merely the principal debtor but any person who has given a guarantee or created any mortgage or pledge as security for financial assistance granted by any bank or financial institution. This expansive definition was held to squarely encompass corporate guarantors such as the appellant company. Section 13 of the Act empowers banks and financial institutions to enforce security interests without court intervention, subject to compliance with mandatory procedural safeguards including the issuance of a 60-day demand notice under Section 13(2), consideration of borrower representations under Section 13(3A), and thereafter taking recourse to measures specified in Section 13(4) including taking possession of secured assets. Section 17 provides the statutory remedy for any person aggrieved by measures taken under Section 13(4), requiring such person to approach the DRT within forty-five days, and empowers the DRT to examine whether such measures conform to the Act's provisions, declare them invalid if necessary, and restore possession or management to the borrower. Most critically, Section 34 expressly bars the jurisdiction of Civil Courts in respect of any matter which the DRT or Appellate Tribunal is empowered to determine, and mandates that no injunction shall be granted by any court or authority in respect of any action taken or to be taken under the powers conferred by the SARFAESI Act or the RDDB Act.

The Court identified several undisputed facts as pivotal to its analysis. The appellant-plaintiff was a corporate guarantor of the borrower company to whom the Bank had extended financial assistance of ₹16.50 crores. In its capacity as corporate guarantor, the appellant had executed a corporate guarantee agreement and a mortgage deed creating security interest over its properties, and significantly, in the civil suit, the plaintiff had challenged only the mortgage deed while neither disputing nor challenging the corporate guarantee. The Bank had instituted proceedings under Section 19 of the RDDB Act before the DRT, wherein an interim order was passed against the appellant-plaintiff on 12th January 2016, which order was never challenged. The civil suit was instituted on 11th April 2016 without disclosing the pendency of RDDB proceedings, and despite the Bank raising preliminary objections regarding maintainability under Sections 34 and 17 of the SARFAESI Act in its written statement filed on 31st December 2016, the appellant-plaintiff did not effectively pursue the injunction application for approximately nine years. The Bank initiated fresh SARFAESI proceedings on 3rd January 2025, obtained an order under Section 14 on 18th July 2025 permitting possession, and only then did the appellant-plaintiff press the pending injunction application.

Regarding the first point for determination, the Court held that the appellant-plaintiff, being a corporate guarantor by virtue of an admittedly unchallenged corporate guarantee agreement, squarely fell within the definition of "borrower" under Section 2(f). Once so classified, any grievance relating to SARFAESI measures was required to be adjudicated by the DRT. The Court conducted a detailed examination of the Prabha Jain decision, distinguishing it on multiple grounds. In that case, the principal relief sought was setting aside a fraudulent sale deed, subsequent prayers related to mortgage and recovery of possession, possession had already been taken and transferred to a third party under SARFAESI proceedings, and there was no direct challenge to statutory measures under the SARFAESI Act. The present case, by contrast, involved a borrower facing proceedings under both the

RDDB Act and SARFAESI Act, where statutory notice under Section 13(2) was served, objections were considered and rejected, and an order under Section 14 was already passed. The substance of the suit being a challenge to the mortgage deed and security interest, granting injunction would effectively amount to staying the operation of the Section 14 order, directly contravening the express bar in Section 34. The Court emphasized that the SARFAESI Act provided a complete and efficacious statutory remedy under Section 17 before the DRT, where even the validity of the security interest could be examined, and permitting parallel Civil Court proceedings would defeat legislative intent and render Section 34 otiose.

On the second point for determination, the Court held that Section 17 vested the DRT with full authority to adjudicate any grievance raised by a person aggrieved by measures adopted by the secured creditor. The DRT was competent to examine the validity of the security interest itself, including whether the mortgage deed was legally executed, whether the borrower or corporate guarantor had necessary authority, whether the deed was void due to lack of statutory compliance, whether property was exempt from mortgage, whether registration was properly complied with, and generally whether the security interest was valid, enforceable, and capable of recovery under SARFAESI proceedings. All these aspects were incidental and necessary to determine the legality of SARFAESI action, and the DRT was fully empowered to decide such matters. The explicit bar in Section 34 precluded Civil Courts from assuming jurisdiction over such disputes.

The Court addressed the appellants' contentions regarding the absence of resolution under Section 179 of the Companies Act by observing that this issue primarily went to the validity and enforceability of the security interest itself, squarely falling within DRT jurisdiction under Section 17. Once the appellant was treated as a borrower under Section 2(f), it could not invoke Civil Court jurisdiction in a manner interfering with statutory proceedings under the RDDB Act or SARFAESI Act. Regarding the trial court's erroneous reasoning about Directors being 50% owners, the Court applied the principle of "right conclusion, wrong reasoning," upholding the final outcome while disapproving the erroneous findings. The Court rejected the "fraud" argument, noting that the appellant being a corporate guarantor within the borrower definition, chose not to appear before the DRT in RDDB proceedings nor challenge the interim order, filed the civil suit in 2016 but allowed it to remain dormant for nine years, and pressed it into service only after the Bank obtained the Section 14 order. Once the possession order was passed, any Civil Court injunction would effectively stay statutory proceedings, expressly barred under Section 34. Allowing Civil Court intervention under the guise of fraud allegations would enable unscrupulous borrowers to evade recovery through clever pleading.

Conclusion and Final Order

For the foregoing reasons, the High Court dismissed the Appeal from Order as devoid of merits, with no order as to costs, and disposed of the Civil Application accordingly. The judgment establishes several significant propositions of law with far-reaching implications for banking and recovery jurisprudence. First, it reaffirms the absolute nature of the jurisdictional bar under Section 34 of the SARFAESI Act, holding that Civil Courts cannot grant injunctions that would effectively stay measures taken under Section 14. Second, it clarifies that the DRT's jurisdiction under Section 17 is comprehensive and extends to examining the validity of the very deed or document creating the security interest, including compliance with corporate authorization requirements under the Companies Act. Third, it establishes that allegations of fraud, when essentially constituting challenges to security interest enforcement, cannot circumvent the statutory framework by resort to Civil Court jurisdiction. Fourth, it applies the "right conclusion, wrong reasoning" principle to uphold correct ultimate decisions despite flawed judicial reasoning. Finally, it sends a strong signal against abusive litigation tactics involving suppression of material facts, non-disclosure of parallel proceedings, and strategic dormancy of applications followed by revival to frustrate statutory recovery mechanisms.

The judgment in *Varun Procon Pvt. Ltd. and Ors. v. State Bank of India and Ors.* is a definitive precedent reinforcing the legislative intent behind the SARFAESI Act to create a simpler, efficient, and exclusive recovery mechanism outside the traditional civil court system. By holding that corporate guarantors fall within the borrower definition and must avail of DRT remedies, and that Civil Court intervention is barred even when fraud is alleged, the Court has strengthened the hands of secured creditors while ensuring that genuine grievances regarding security validity are adjudicated by the specialized tribunal best equipped to handle them. The decision highlights that the SARFAESI Act framework, with its built-in safeguards and appellate mechanisms, provides sufficient protection to borrowers without necessitating parallel civil court intervention that would fragment the recovery process and enable dilatory tactics. This judgment will undoubtedly guide future courts in maintaining the integrity of the statutory recovery framework and preventing the erosion of secured creditors' rights through jurisdictional circumvention.

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