CNR No: PHHC010932562026
2026:PHHC:137722-DB

IN THE HIGH COURT OF PUNJAB & HARYANA AT CHANDIGARH

CWP-20643-2026 (O&M)
Reserved on : 13.07.2026
Pronounced on: 24.09.2026
Uploaded on : 24.09.20269

Whether only operative part of the judgment is pronounced or the full Judgment is pronounced: ***Full Judgment***

RAKESH NAYYAR

…PETITIONER

VS.

THE STATE BANK OF INDIA AND OTHERS

... RESPONDENTS

CORAM:- HON'BLE MR. JUSTICE JASGURPREET SINGH PURI
HON'BLE MR. JUSTICE SANJIV BERRY

Present:- Mr. J.S. Jaidka, Advocate and
Ms. Garima Arora, Advocate,
for the petitioner.

Mr. Chandeep Singh, Advocate and
Ms. Palak Gosain, Advocate,
for the respondent-SBI.

*****

SANJIV BERRY, J.

1. The petitioner has preferred the instant writ petition under Article 226/227 of the Constitution of India for issuance of a writ in the nature of *certiorari* for quashing of impugned orders dated 21.02.2026 (Annexure P-8) and 11.03.2026 (Annexure P-9) whereby the respondent Bank had decided to classify the loan account of the Company as ‘fraud’ and reported the name of the petitioner to the Reserve Bank of India without affording the opportunity of being heard.

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2. Brief facts of the case are that the petitioner was a Director in the Company namely Woolways India Limited which was proceeded under the provisions of Insolvency and Bankruptcy Code, 2016, vide order dated 10.05.2018 (Annexure P-1) passed by learned National Company Law Tribunal, New Delhi Bench in case Number CP-No.IB-29(ND)/2018. To undertake further proceedings, through Interim Resolution Professional (IRP) a meeting was held on 11.06.2018. In furtherance to the insolvency proceedings the records of the company were shifted in custody and control of the liquidator, who had been appointed as Interim Resolution Professional (Annexure P-3 and Annexure P-4).

2.1 Respondent State Bank of India issued a show cause notice dated 02.12.2025 to the petitioner alleging as to why the account/name of the petitioner should not be categorized and reported as fraud as per RBI guidelines (Annexure P-5). In the aforesaid show cause notice, five (5) allegations were levelled against the petitioner on the basis of a Forensic Audit Report dated 25.03.2019 (Annexure P-6).

2.2 The petitioner responded to the aforesaid show cause notice and filed reply dated 18.12.2025 (Annexure P-7).

2.3 By way of an order dated 11.03.2026 (Annexure P-9) respondent Bank concluded to classify the loan account of Woolways India Limited as fraud and further decided to report the name of the Company and its Directors i.e. present petitioner to the Reserve Bank of India, and the said order had been was passed on the basis of an order dated 21.02.2026 (Annexure P-8) passed by Fraud Identification Committee SARG.

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2.4 The aforesaid orders dated 21.02.2026 (Annexure P-8) and 11.03.2026(Annexure P-9) were passed without affording opportunity of being heard to the petitioner. Hence the petition.

3. We have heard the learned counsel for the parties and also perused the record with their assistance.

4. It is *inter alia* contended by the learned counsel for the petitioner that the petitioner is a senior citizen aged 68 years and was a director of M/s Woolways India Limited. The company was engaged in the manufacturing of hosiery and textile products and to run its operations, the company had availed credit facilities from a consortium of banks, with Standard Chartered Bank and the respondent State Bank of India (SBI) acting as consortium partners. He further contends that in the year 2018, Standard Chartered Bank filed an application under Section 7 of the Insolvency and Bankruptcy Code, 2016 (in short 'IBC') before the ld. National Company Law Tribunal (NCLT), New Delhi Bench (CP No. IB-29/(ND)/2018) and vide order dated 10/05/2018, the learned National Company Law Tribunal accepted the petition and initiated the Corporate Insolvency Resolution Process (CIRP) and on 18/05/2018, the entire management, assets, and operational records of the company were taken over by the Interim Resolution Professional (IRP), who was subsequently appointed as the Liquidator and all statutory records were shifted to the custody and control of the Liquidator.

4.2 He further contends that parallelly, the resolution process culminated in a comprehensive repayment plan dated 23/09/2025 and this plan acted as a full and final settlement, subjecting the corporate debtor to a repayment of ₹15.1067 Crores. The plan was formally approved on

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10/11/2025 (Annexure P-10) by the Resolution Professional in the direct presence and with the consent of the respondent State Bank of India.

4.3 He contends that despite the aforesaid settlement, the respondent Bank issued a Show Cause Notice dated 02/12/2025 (Annexure P-5) to the petitioner, alleging five points of financial discrepancy and required the petitioner to show cause why the account should not be reported as fraud under RBI guidelines. The allegations were built entirely upon a Forensic Audit Report dated 25/03/2019 (Annexure P-6). He contends that the charges in the Show Cause Notice involves complex data such as a ₹17.08 Crore raw material entry mismatch and variance in gate out registers, petitioner filed interim reply as the entire corporate record has been sealed with the Liquidator since 2021. By denying access to these books, the bank violated the rule of *audi alteram partem.*

4.4 He contends that unconvinced by the reply, filed by the petitioner, the respondents passed the impugned order on 21/02/2026 (Annexure P-8), which was formally communicated by the Bank on 11/03/2026 (Annexure P-9) classifying the Loan Account of the Company as 'Fraud' and reported the names of the Director of the Company to the Reserve Bank of India.

4.5 He contends that when the matter already stood resolved vide report dated 10.11.2025 (Annexure P-10) then initiating adverse actions by the respondent-Bank against the petitioner without giving opportunity of access to the record and of being heard properly is illegal, arbitrary and not sustainable in the eyes of law. In support of his contention he has referred to the judgment passed by Hon'ble Apex Court in ***State Bank of India & Ors. Vs. Rajesh Aggarwal & Ors, 2023 (6) SCC 1***; and prays for acceptance of the writ petition.

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5. *Per contra*, learned counsel representing the respondent Bank contends that the actions under the Reserve Bank Master Directions on Fraud are independent statutory obligations designed to protect the integrity of the banking system. The successful completion of a resolution plan or settlement under the Indian Bankruptcy Code does not wipe out or immunize corporate directors from isolated past frauds discovered during a forensic audit. He further contended that a copy of the Forensic Audit Report dated 25/03/2019 (Annexure P-6) had already been referenced and made available to the parties during the insolvency proceedings. Therefore, the petitioner cannot claim ignorance of the charges. The show-cause notice dated 02.12.2025 (Annexure P-5) contained the definitive conclusions extracted from Forensic Audit Report (Annexure P-6), which gave the petitioner adequate notice of what he had to answer. He contends that it is the responsibility of the directors to maintain true and accurate accounts and if there were discrepancies wherein ₹17.08 Crores of transactions had zero quantitative effect on accounting, it was up to the Director to produce independent personal records to clear his name. Since the petitioner merely gave "theoretical explanations" instead of a verified documentary reconciliation, the bank was fully justified in rejecting the reply as unsatisfactory. He submits that suspicious irregularities were observed in the account and as such the Bank had declared the loan account as fraud in accordance with the provisions of law by passing the speaking order in the shape of the proceedings of the Committee for Identification of Account as Fraud held on 21.02.2026 (Annexure P-8) which was formally conveyed to the petitioner on 11.03.2026 (Annexure P-9).

5.1 He submits that the principles of natural justice demanded that borrowers must be served a notice, giving an opportunity to explain the

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conclusions of the forensic audit report, before their account is classified as fraud under the Master Directions on Frauds. He further submits that a show cause notice dated 02.12.2025 (Annexure P-5) along with Forensic Audit Report dated 25.03.2019 (Annexure P-6) were duly served upon the petitioner and the petitioner submitted detailed reply on 18.12.2025 (Annexure P-7) to the same, and after considering the reply and relevant documents on record, the Review Committee for Identification of Account as Fraud in its meeting held on 21.02.2026 dropped allegation No.4 mentioned in the Show Cause Notice. Therefore, it cannot be said the opportunity of being heard had not been granted to the petitioner. The principle of *audi alteram partem* had been duly complied with. Hence he prayed for dismissal of the present petition.

6. After considering the respective arguments and perusing the record, it is observed that there is no dispute qua the fact that the Company Woolways India Limited had availed the loan facility from the consortium of Banks with Standard Chartered Bank and the respondent State Bank of India (SBI) acting as consortium partners. In the year 2018, Standard Chartered Bank filed an application under Section 7 of the Insolvency and Bankruptcy Code, 2016 (in short 'IBC') before the ld. National Company Law Tribunal (NCLT), New Delhi Bench (CP No. IB-29/(ND)/2018) and vide order dated 10/05/2018 (Annexure P-1) the learned National Company Law Tribunal accepted the petition and initiated the Corporate Insolvency Resolution Process (CIRP) and on 18/05/2018, the entire management, assets, and operational records of the company were taken over by the Interim Resolution Professional (IRP), who subsequently appointed as the Liquidator.

6.1 Thereafter, finding certain suspicious irregularities in the account, the respondent-Bank issued a show cause notice dated 02.12.2025 to the

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petitioner alleging as to why the account/name of the petitioner should not be categorized and reported as fraud as per Reserve Bank of India guidelines (Annexure P-5). In the aforesaid show cause notice, five (5) allegations were levelled against the petitioner on the basis of a Forensic Audit Report dated 25.03.2019 (Annexure P-6). The petitioner filed interim reply as per available record.

6.2 After considering the reply, filed by the petitioner, it was found to be unsatisfactory, and hence the respondents passed the impugned order on 21/02/2026, (Annexure P-8) which was formally communicated by the Bank on 11/03/2026 (Annexure P-9) classifying the Loan Account of the Company as 'Fraud' and reported the names of the Director of the Company to the Reserve Bank of India.

7. In the backdrop of above facts and circumstances, it is worth mentioning that the Hon'ble Apex Court in ***Rajesh Aggarwal's case (supra)*** has held that the principles of natural justice would be read in Clause 8.9.4 and 8.9.5 of the Master directions on fraud classification issued by Reserve Bank of India (Frauds Classification and Reporting by Commercial Banks and Select FIS) Directions, 2016, therefore, such adverse action of declaring an account fraud cannot be taken without affording an opportunity of hearing. The relevant portion of the judgment reads as under:-

> *" xxx xxx xxx*
>
> *79. In light of the legal position noted above, we hold that the rule of audi alteram partem ought to be read in Clauses 8.9.4 and 8.9.5 of the Master Directions on Fraud. Consistent with the principles of natural justice, the lender banks should provide an opportunity to a borrower by furnishing a copy of the audit reports and allow the borrower a reasonable opportunity to submit a*

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representation before classifying the account as fraud. A reasoned order has to be issued on the objections addressed by the borrower. On perusal of the facts, it is indubitable that the lender banks did not provide an opportunity of hearing to the borrowers before classifying their accounts as fraud. Therefore, the impugned decision to classify the borrower account as fraud is vitiated by the failure to observe the rule of audi alteram partem. In the present batch of appeals, this Court passed an ad-interim order restraining the lender banks from taking any precipitate action against the borrowers for the time being. In pursuance of our aforesaid reasoning, we hold that the decision by the lender banks to classify the borrower accounts as fraud, is violative of the principles of natural justice. The banks would be at liberty to take fresh steps in accordance with this decision.

Xxxxxx

E. Conclusion

81. The conclusions are summarized below:

i. No opportunity of being heard is required before an FIR is lodged and registered;

ii. *Classification of an account as fraud not only results in reporting the crime to investigating agencies, but also has other penal and civil consequences against the borrowers;*

iii. *Debarring the borrowers from accessing institutional finance under Clause 8.12.1 of the Master Directions on Frauds results in serious civil consequences for the borrower;*

iv. *Such a debarment under Clause 8.12.1 of the Master Directions on Frauds is akin to blacklisting the borrowers for being untrustworthy and unworthy of credit by banks. This Court has consistently held that an*

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opportunity of hearing ought to be provided before a person is blacklisted;

v. *The application of audi alteram partem cannot be impliedly excluded under the Master Directions on Frauds. In view of the time frame contemplated under the Master Directions on Frauds as well as the nature of the procedure adopted, it is reasonably practicable for the lender banks to provide an opportunity of a hearing to the borrowers before classifying their account as fraud;*

vi. *The principles of natural justice demand that the borrowers must be served a notice, given an opportunity to explain the conclusions of the forensic audit report, and be allowed to represent by the banks/JLF before their account is classified as fraud under the Master Directions on Frauds. In addition, the decision classifying the borrower's account as fraudulent must be made by a reasoned order; and*

vii. *Since the Master Directions on Frauds do not expressly provide an opportunity of hearing to the borrowers before classifying their account as fraud, audi alteram partem has to be read into the provisions of the directions to save them from the vice of arbitrariness".*

8. In the present case it is not disputed that before declaring the account of the petitioner 'fraud', the respondent-Bank had issued a comprehensive Show Cause Notice dated 02.12.2025 (Annexure P-5), wherein various fraud angles were specifically highlighted including misappropriation of funds and criminal breach of trust, manipulation of books of account through fictitious accounts and conversion of property, availing of credit facilities by overstating assets etc, drawing from cash credit account etc. It is evident from the perusal of Show Cause Notice dated 02.12.2025 (Annexure P-5) that along with the Show Cause Notice, the petitioner was

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also supplied the entire Forensic Audit Report dated 25.03.2019 comprising 157 pages prepared by M/s Ravin Rajan & Co, Chartered Accountants, which has been placed on record as Annexure P-6.

9. The petitioner submitted reply to the aforesaid Show Cause Notice on 18.12.2025 (Annexure P-7), wherein point by point reply was submitted to the allegations raised in the Show Cause Notice.

10. After considering the reply dated 18.12.2025 (Annexure P-7) to the Show Cause Notice, the Review Committee for Identification of Account as Fraud in its meeting dated 21.02.2026 dropped charge/allegation of multiple cash credit facility regarding “the Company maintaining current accounts with Axis Bank, Indusind Bank etc. without the permission of the lender bank and had routed transactions with them” while on the other heads of the allegations the Review Committee concurred with the finding of the Forensic Auditor. The perusal of proceedings Annexure P-8 dated 21.02.2026 of the meeting of Review Committee would reveal that each and every aspect of the allegations *vis-a-vis* the response submitted by the petitioner had been duly discussed therein and only thereafter one of the allegation levelled in the Forensic Audit Report (Annexure P-5) was dropped, whereas regarding the other allegations, the reply submitted by the petitioner could not satisfy the Review Committee to differ from the finding of the Forensic Auditor, leading to passing of the impugned order (Annexure P-9) dated 11.03.2026 classifying the loan account of the petitioner as ‘fraud’. The perusal of above referred documents amply established that the respondent-Bank had given a comprehensive show cause notice, considering the reply submitted by the petitioner and even the Review Committee after considering the reply submitted by the petitioner had dropped one of the charges qua multiple cash

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credit facility against the petitioner. This shows that the Review Committee had meticulously considered the objections submitted by the petitioner in his reply to the Show Cause Notice before taking further action. There is nothing on record pleaded by the petitioner to suggest that he desired to produce certain record which was in custody of NCLT at the relevant time. On the contrary ever contention raised by the petitioner was duly considered by the Review Committee before declaring the account as 'fraud'.

11. In ***Rajesh Aggarwal's case (supra)*** the Hon'ble Apex Court had observed that the principle of natural justice demands that the borrowers must be served a notice, giving an opportunity to explain the conclusions of the Forensic Audit Report and be allowed to be represented by the Banks/Joint Lending Forum before their account is classified as 'fraud'. Besides, it is also made incumbent upon the Banks to furnish the copy of Forensic Audit Report to the party concerned and after considering the reply so filed, pass a reasoned order in the matter.

11.1 The perusal of record in the instant case goes to show that the respondent-Bank had meticulously complied with all such directions, as stated above, and had issued a show cause notice accompanied with Forensic Audit Report, giving an opportunity to the petitioner to represent and file the reply and reply so filed by the petitioner was duly considered para-wise while passing a reasoned order by the concerned Committee. At the cost of repetition, it is worth mentioning here that the factum of the reply filed by the petitioner having been meticulously considered, can be observed from the fact that out of five (5) allegations levelled in the Show Cause Notice based on the Forensic Audit Report, after considering the reply filed by the petitioner, the concerned Committee had dropped one of the charge pertaining to multiple

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Cash Credit facility. Therefore, in these circumstances, it is observed that the respondent-Bank has adhered to the principle of *audi alteram partem* besides complying with the guidelines given in ***Rajesh Aggarwal's case (supra),*** while declaring/classifying the account of petitioner as 'fraud' as per Reserve Bank of India guidelines.

12. In view of the above, we are of the considered view that the respondent-Bank has acted in accordance with law in declaring the account of petitioner as 'fraud' and in the process they had not made any contravention to the process of principles of natural justice as alleged by the petitioner in any manner. We find no infirmity or illegality in the orders dated 21.02.2026 (Annexure P-8) and 11.03.2026 (Annexure P-9) so as to call for any interference by this Court.

13. Resultantly, finding no merit in the instant writ petition, the same is hereby dismissed.

14. Misc. Application if any, shall also stands disposed of.

(SANJIV BERRY)
JUDGE

(JASGURPREET SINGH PURI)
JUDGE

Dated: 24.09.2026
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i) Whether speaking/reasoned? Yes/No
ii) Whether reportable? Yes/No

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