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* **IN THE HIGH COURT OF DELHI AT NEW DELHI**

Date of Decision: 21st January, 2025.

\+ CRL.M.C. 350/2025, CRL.M.A. 1742/2025 & CRL.M.A. 1743/2025

RANGOLI INTERNATIONAL PVT LTD & ORS. .....Petitioners

Through: Mr. Manohar Malik, Ms. Astha Gumber, Advocates

versus

CENTRAL BUREAU OF INVESTIGATION & ORS.

.....Respondents

Through: Mr. Santosh Kumar Rout, SC of BOB with Ms. Dharna Veragi, Advocate for R-2/BoB
Mr. Brijesh Kumar Tamber, Mr. Vinay Singh Bist and Mr. Yashu Rustagi, Advocates for Respondent No.3/Canara Bank

CORAM:
HON'BLE MR. JUSTICE SANJEEV NARULA

JUDGMENT

SANJEEV NARULA, J. (Oral):

1. The present petition under Section 528 of the Bharatiya Nagarik Suraksha Sanhita, 2023[1] (erstwhile Section 482 of the Code of Criminal Procedure, 1973[2]) read with Article 226 of the Constitution of India, seeks quashing of FIR/RC bearing No. RCBD1/2016/E/0004 dated 24th May, 2016[3], as well as all proceedings emanating therefrom. The aforesaid

[1] "BNSS"
[2] "CrPC"
[3] "Impugned FIR/RC"

FIR/RC has been filed under Section 120-B read with Section 420 of the Indian Penal Code, 1860[4] as well as Sections 13(2) and 13(1)(d) of the Prevention of Corruption Act, 1988, registered at Central Bureau of Investigation[5], BS & FC,

2. Counsel for the Petitioners submits that the impugned FIR/RC is predicated upon declaration of Petitioner No. 1's account as 'fraud' as per the 'Master Circular on Frauds' issued by the RBI. The said fraud declaration has now been set aside by this Court *vide* order dated 12th May, 2023 in W.P. (C) 590/2016, and therefore, the very genesis of the complaint alleging fraud as well as the subsequent impugned FIR/RC is untenable in law and as such, the same deserves to be quashed.

3. The counsel further submits that the aforenoted order of this Court is in consonance with the well settled principles law enunciated by the Supreme Court of India in ***State Bank of India v. Rajesh Agarwal & Ors.***[6] In the said judgment it has been held that the classification of an account as 'fraud' by banks, as per the 'Master Circular on Frauds' issued by the RBI, must adhere to the Principles of Natural Justice. Specifically, the borrower must be granted a reasonable opportunity to be heard before such classification is finalized. A failure to comply with this procedural safeguard renders the classification legally untenable and vitiates the entire process. In the present case, the Respondent Banks violated these principles, which has led to the quashing of the initial fraud declaration. This, in turn, vitiates the basis of the impugned FIR/RC.

4. It is further argued that the impugned FIR/RC was lodged on the basis

[4] "IPC"
[5] "CBI"

of false and frivolous complaints made by Respondent No. 3 - Canara Bank and Respondent No. 2 - Bank of Baroda to Respondent No. 1 – CBI. These complaints, dated 1st February, 2016 and 29th June, 2016, respectively, were clubbed together and they served as the foundation for the registration of the impugned FIR/RC. The complaints themselves were motivated, frivolous, and premised on misinterpretations of certain financial transactions involving the Petitioner company.

5. The counsel elaborates on the chronology of events surrounding the Petitioner company's credit and financing arrangements with a consortium of banks, including Respondents No. 2 and 3. He submits that the Petitioner company had availed of credit facilities, following which consortium meetings were held to discuss concerns raised by the banks regarding specific transactions flagged by the CBI in connection with two entities, namely Sahara Exim Pvt. Ltd. and Texcomash International Pvt. Ltd. In 2014, CBI conducted raids on the factory premises and offices of the Petitioner company, alleging fraudulent transactions involving two remittances totalling INR 27 Lakhs sent to the Petitioner company by the aforementioned entities. However, neither the Petitioner company nor its directors had any knowledge of these transactions. During the subsequent consortium meetings, the Petitioners addressed all concerns raised by the banks, and in October 2015 at the Joint Lenders Forum, it was unanimously resolved that there was no evidence of fraud in the Petitioner's account. Despite this resolution, Respondents No. 2 and 3 unilaterally declared the account of the Petitioner company as 'fraud' and reported the same to the RBI. Additionally, they filed complaints before the CBI, culminating in the

[6] (2023) 6 SCC 1

registration of the impugned FIR/RC.

6. The Petitioners aggrieved by the conduct and actions of the Respondent banks were constrained to file a writ petition before this Court challenging the declaration of their account as 'fraud.' This Court, *vide* order dated 12th May, 2023, allowed the writ petition, holding that the declaration was in violation of the principles laid down in *Rajesh Agarwal* and was, therefore, unsustainable in law.

7. The Petitioners further submit that, on 27th June, 2024, Respondent No. 3 issued a fresh Show Cause Notice to the Petitioner company, seeking an explanation as to why their account should not be declared as 'fraud.' Despite submitting a detailed response, Respondent No. 3 arbitrarily issued a fresh order dated 15th October, 2024 (communicated on 4th November, 2024), declaring the Petitioner's account as 'fraud'. The grounds for this fresh fraud declaration differ significantly from the allegations raised in the complaints filed before the CBI in 2016. This inconsistency, coupled with the fact that the original fraud declaration has already been quashed by this Court, renders the continuation of the impugned FIR/RC legally untenable. The Petitioners have also challenged this fresh fraud declaration before this Hon'ble Court in W.P. (C) 16281/2024, which is presently pending adjudication.

8. In light of the above, counsel for the Petitioners argues that the very foundation of the impugned FIR/RC has been invalidated by this Court's order dated 12th May, 2023, in W.P.(C) 590/2016. Furthermore, the subsequent actions of Respondent No. 3, including the issuance of a fresh fraud declaration on different grounds, demonstrate that the initial complaints filed before the CBI were baseless. Thus, the continuation of the

investigation in the impugned FIR/RC serves no purpose and would amount to an abuse of the process of law.

Analysis

9. The Court has carefully considered the submissions advanced by counsel for the Petitioner. At the outset, it is pertinent to note that the inherent jurisdiction of this Court under Section 528 of BNSS (erstwhile Section 482 of Cr.P.C.) ought to be exercised sparingly, and with abundant caution. In this regard, the Supreme Court, in ***Indian Oil Corporation v. NEPC India Limited and Others***,[7] has discussed the scope of jurisdiction under Section 482 of the CrPC to quash criminal proceedings, and made the following observations:

> *"**12.** The principles relating to exercise of jurisdiction under Section 482 of the Code of Criminal Procedure to quash complaints and criminal proceedings have been stated and reiterated by this Court in several decisions. To mention a few— Madhavrao Jiwajirao Scindia v. Sambhajirao Chandrojirao Angre [(1988) 1 SCC 692 : 1988 SCC (Cri) 234] , State of Haryana v. Bhajan Lal [1992 Supp (1) SCC 335 : 1992 SCC (Cri) 426] , Rupan Deol Bajaj v. Kanwar Pal Singh Gill [(1995) 6 SCC 194 : 1995 SCC (Cri) 1059] , Central Bureau of Investigation v. Duncans Agro Industries Ltd. [(1996) 5 SCC 591 : 1996 SCC (Cri) 1045] , State of Bihar v. Rajendra Agrawalla [(1996) 8 SCC 164 : 1996 SCC (Cri) 628] , Rajesh Bajaj v. State NCT of Delhi [(1999) 3 SCC 259 : 1999 SCC (Cri) 401] , Medchl Chemicals & Pharma (P) Ltd. v. Biological E. Ltd. [(2000) 3 SCC 269 : 2000 SCC (Cri) 615] , Hridaya Ranjan Prasad Verma v. State of Bihar [(2000) 4 SCC 168 : 2000 SCC (Cri) 786] , M. Krishnan v. Vijay Singh [(2001) 8 SCC 645 : 2002 SCC (Cri) 19] and Zandu Pharmaceutical Works Ltd. v. Mohd. Sharaful Haque [(2005) 1 SCC 122 : 2005 SCC (Cri) 283] . The principles, relevant to our purpose are:*
>
> *(i) A complaint can be quashed where the allegations made in the complaint, even if they are taken at their face value and accepted in their entirety, do not prima facie constitute any offence or make out the case alleged against the accused.*
>
> *For this purpose, the complaint has to be examined as a whole, but*

[7] (2006) 6 SCC 736.

without examining the merits of the allegations. Neither a detailed inquiry nor a meticulous analysis of the material nor an assessment of the reliability or genuineness of the allegations in the complaint, is warranted while examining prayer for quashing of a complaint.

(ii) A complaint may also be quashed where it is a clear abuse of the process of the court, as when the criminal proceeding is found to have been initiated with mala fides/malice for wreaking vengeance or to cause harm, or where the allegations are absurd and inherently improbable.

(iii) The power to quash shall not, however, be used to stifle or scuttle a legitimate prosecution. The power should be used sparingly and with abundant caution.

(iv) The complaint is not required to verbatim reproduce the legal ingredients of the offence alleged. If the necessary factual foundation is laid in the complaint, merely on the ground that a few ingredients have not been stated in detail, the proceedings should not be quashed. Quashing of the complaint is warranted only where the complaint is so bereft of even the basic facts which are absolutely necessary for making out the offence.

(v) A given set of facts may make out: (a) purely a civil wrong; or (b) purely a criminal offence; or (c) a civil wrong as also a criminal offence. A commercial transaction or a contractual dispute, apart from furnishing a cause of action for seeking remedy in civil law, may also involve a criminal offence. As the nature and scope of a civil proceeding are different from a criminal proceeding, the mere fact that the complaint relates to a commercial transaction or breach of contract, for which a civil remedy is available or has been availed, is not by itself a ground to quash the criminal proceedings. The test is whether the allegations in the complaint disclose a criminal offence or not"

[Emphasis added]

10. Furthermore, the Supreme Court, in ***Rathish Babu Unnikrishnan v. State (NCT of Delhi)***,[8] after referencing several judgments, has delineated the criteria for the exercise of inherent jurisdiction to quash criminal proceedings at a preliminary stage:

"14. The parameters for invoking the inherent jurisdiction of the Court to quash the criminal proceedings under S.482 CrPC, have been spelled out by Justice S. Ratnavel Pandian for the two judges' bench in State of

[8] 2022 SCC OnLine SC 513.

Haryana v. Bhajan Lal [1992 Supp (1) SCC 335 : AIR 1992 SC 604], and the suggested precautionary principles serve as good law even today, for invocation of power under Section 482 of the Cr.P.C.

> ***'103. We also give a note of caution to the effect that the power of quashing a criminal proceeding should be exercised very sparingly and with circumspection and that too in the rarest of rare cases; that the court will not be justified in embarking upon an enquiry as to the reliability or genuineness or otherwise of the allegations made in the FIR or the complaint and that the extraordinary or inherent powers do not confer an arbitrary jurisdiction on the court to act according to its whim or caprice.'***

15. *In the impugned judgment, the learned Judge had rightly relied upon the opinion of Justice J.S. Khehar for a Division Bench in Rajiv Thapar (supra), which succinctly express the following relevant parameters to be considered by the quashing Court, at the stage of issuing process, committal, or framing of charges,*

> *'**28.** The High Court, in exercise of its jurisdiction under Section 482 CrPC, must make a just and rightful choice. This is not a stage of evaluating the truthfulness or otherwise of the allegations levelled by the prosecution/complainant against the accused. Likewise, it is not a stage for determining how weighty the defences raised on behalf of the accused are.* ***Even if the accused is successful in showing some suspicion or doubt, in the allegations levelled by the prosecution/complainant, it would be impermissible to discharge the accused before trial. This is so because it would result in giving finality to the accusations levelled by the prosecution/complainant, without allowing the prosecution or the complainant to adduce evidence to substantiate the same.*** *'*

16. *The proposition of law as set out above makes it abundantly clear that the Court should be slow to grant the relief of quashing a complaint at a pre-trial stage, when the factual controversy is in the realm of possibility particularly because of the legal presumption, as in this matter.* ***What is also of note is that the factual defence without having to adduce any evidence need to be of an unimpeachable quality, so as to altogether disprove the allegations made in the complaint.***

17. The consequences of scuttling the criminal process at a pretrial stage can be grave and irreparable. <u>Quashing proceedings at preliminary stages will result in finality without the parties having had an opportunity to adduce evidence and the consequence then is that the</u>

proper forum i.e., the trial Court is ousted from weighing the material evidence. If this is allowed, the accused may be given an un-merited advantage in the criminal process."

[Emphasis added]

11. Having regard to the aforenoted principles, in the considered opinion of the Court, the quashing of the classification of the account of Petitioner No. 1 as 'fraud' by this Court, *vide* its order dated 12th May, 2023, does not preclude the Respondent banks from pursuing their right to request an investigation into alleged fraudulent activities through the appropriate investigating authorities. This distinction is significant and finds support in the observations made in the afore-noted order, which, while invalidating the fraud classification for want of adherence to natural justice, expressly preserved the right of the Respondent banks to proceed in accordance with law. It does not curtail the investigative prerogatives of the Respondent banks or the ongoing criminal proceedings initiated pursuant to the impugned FIR/RC. The relevant portion of the order reads as follows:

> *"6. As a result, following the judgment of the Supreme Court, these petitions are disposed of by setting aside the actions taken against the petitioners under the Master Directions. It will be open to the concerned banks to proceed in accordance with law, in light of the judgment of the Supreme Court in Rajesh Aggarwal (supra)**. It is made clear that any First Information Report which has been lodged, and proceedings pursuant thereto, remain unaffected by this order.** Needless to say, parties will be bound by any clarification of the judgment rendered by the Supreme Court."*
>
> [Emphasis added]

12. Furthermore, it is noted that following the order dated 12th May, 2023, Respondent No. 3 issued a fresh fraud declaration by communication dated 04th November, 2024. This declaration has been assailed by the Petitioners in W.P.(C) 16281/2024, which is presently *sub judice*. Significantly, this Court, *vide* its interim order dated 25th November, 2024, while issuing notice

to the Respondents, stayed the operation of the impugned fraud declaration dated 15th October, 2024, communicated on 4th November, 2024. However, the continuation of the criminal proceedings under the impugned FIR/RC, cannot hinge solely on the fraud classification process, particularly when it is distinct from the issues under consideration in the writ petitions. The criminal investigation must be assessed independently, based on the allegations in the FIR, and not conflated with the procedural deficiencies surrounding the fraud classification.

13. On a *prima facie* analysis of the allegations contained in the FIR/RC, it is evident that the Respondent banks have raised specific and serious allegations that warrant investigation. The detailed complaint by Respondent No. 3 points to various irregularities in the financial transactions of the Petitioner company as follows:

> *"The investigation has revealed irregularities in the bills discounting facility extended to the party. The details are as below:*
> *There were 34 bills outstanding against the party for a total value of Rs 21.75 crores. The following are the details of the purchasers/drawees in the 34 bills which had fallen overdue:*
>
> *xxx xxx xxx*
>
> *Out of the above party has submitted the transport documents submitted by Multimodal transport operator for 6 bills, the details of which are as under:*
>
> *xxx xxx xxx*
>
> *In all the above transport documents, the goods are not consigned to the order of Canara Bank and the transport document numbers are not finding a place in the EDI system report [GR Form]. As per Multimodal Transportation of Goods Act 1993 the business of multimodal transportation shall be undertaken only by those concerns who are registered under the Act. Perusal of the above transport documents does not reveal as to whether the above operators are registered under the Act. In the ROC site, it is observed that Shri. XX and Smt XX are the directors in Flame Logistics Zones P Ltd. Further the address of Flame Logistics Zones P Ltd is xxxxxxxxxxxxx and the e-mail ID is xxxxxxxx. It is observed from the proposal of RIPL that M/s Flywheel Logistics Pvt. Ltd. is a group concern of RIPL. It is also observed from the ROC site that Shri XX and*

Smt XX are the directors in Flywheel Logistics P Ltd. In the official web site of the above transport companies there is no provision of tracking the consignment.

For the remaining outstanding 28 Bills, the Airway bills issued by various operators were enclosed along with the bills. Out of the above 28 airway bills, Airway Bills were issued by M/s. Hercules Aviations P Ltd for 21 bills. While tracking the bills in the official web-site of Hercules Aviations P Ltd, the message shown was," No shipment details exist for the airway bills". The other Airway bills could not be tracked in the official web-site of the issuer. ***Hence the investigating officer had opined that the transport documents submitted along with the bills may not be genuine****.*

……While perusing the outstanding bills, it is observed that the bills were not drawn under LCs of prime/ non prime banks and the invoices do not indicate any purchase order reference number and the relative purchase orders were not attached to the bills. It is further observed from the investigation report that the party has not submitted original purchase orders while availing the PC limits. ***Hence, these bills might not have arisen out of any genuine trade transaction and our Bank officials had failed to notice the above irregularities.***

Internal investigation also observed that the facts and figures furnished by the company in respect of two Creditors viz. Radhika Trading Co. and Jagdish Trading Company are not true as both the parties are not found in the given address and both are non-existent. The invoices of these companies are not having the details of the party such as address, phone numbers even the invoices are not having serial numbers. From the list of creditors as on 31/05/2014 submitted by the party, it is observed that the amount due to M/s. Radhika Trading Co. is Rs.3,50,41,342.22 and to M/s. Jagdish Trading Company is Rs.2,80,23,743.20. ***The Company has furnished the false/fabricated figures to artificially boost the purchase, sales and receivables.***

The perusal of the bill transactions for realization details has revealed that the payment for all retired bills was received from third party whereas those bills were returned unpaid by the Negotiating Bank. The party had stated that in some of the cases, the goods were sold to alternate buyers as the original buyers were renegotiating the price after dispatch of consignments. Party also stated that in some cases the party informed that the payment for the bills were made by sister concerns of the respective importers. However, in spite of receipt of payments, Bills were returned subsequently. ***This indicates that there may not be genuine trade related transactions under the bills portfolio.***

The Company records/register showing the details of dispatch made to the Central Office for onward export to foreign buyers has revealed that from July 2014 to September 2014, as many as 13 export bills amounting to USD 1,07,773.00 of M/s. BMA International FZE and M/s. SDV International were negotiated through HSBC Bank, which is not a member

> *of Consortium.* ***In this connection, the party had not taken any permission from the consortium to route these bills through a non consortium member. Thus the party also resorted to divert the sales proceeds through a banker which is not a member in consortium****.*
> *Departmental investigation revealed certain procedural lapses/deficiencies on the part of*
> *following public servants in sanctioning/handling the account:*
> *xxx xxx xxx*
> *Bank has initiated staff action as per procedure of the Bank.*
> ***Thus from the above it is evident that the party has committed fraud upon the Bank****.*
> *xxx xxx xxx*
> ***As public funds are involved, we request CBI to register a criminal case against M/s. Rangoli international P Ltd and its directors. CBI is also requested to examine the role of unknown public servants, if any, in the matter. Other consortium member Banks except Bank of Baroda have not yet declared their Account(s) as Fraud."***
>
> [Emphasis added[9]]

14. The impugned FIR/RC discloses serious charges of conspiracy, fraud, and corruption under the IPC and the Prevention of Corruption Act. The allegations revolve around financial irregularities and the misuse of banking facilities, which *prima facie* require a thorough investigation. Even though the Petitioners contend that the fraud declaration has been quashed and that the allegations are baseless, the fact remains that the FIR contains allegations that disclose cognizable offences, and the investigation cannot be foreclosed prematurely at this stage. Respondent No. 3 has specifically alleged that the Petitioner company engaged in falsification and fabrication of figures to artificially inflate its purchases, sales, and receivables. An examination of the bill transactions revealed that while payments for retired bills were ostensibly made by third parties, these bills were later returned unpaid by the negotiating bank. Respondent No. 3 further contends that, in

[9] Certain portions of the extracts have been obscured so as to protect the personal information of the parties.

certain instances, goods were sold to alternate buyers after the original buyers sought to renegotiate prices post-dispatch of consignments. Additionally, it has been alleged that payments for some bills were made by sister concerns of the respective importers. This pattern of transactions, according to Respondent No. 3, raises serious doubts about the genuineness of trade-related dealings under the bills portfolio, as the repeated return of bills despite apparent payments suggests the possibility of *non-bona fide* transactions.

15. It is settled law that at the stage of considering a plea for quashing an FIR, the Court is not expected to delve into the merits of the allegations or evaluate the evidence. The test to be applied is whether the allegations, taken at face value, disclose the commission of a cognizable offence. In this case, the allegations not only disclose cognizable offences but also highlight a pattern of conduct that requires a thorough investigation. The procedural irregularities in the fraud classification process do not *ipso facto* vitiate the criminal investigation unless it is shown that the FIR is malicious or lacks a legal foundation altogether. There may be an overlap in the two issues, however, both are yet separate and distinct for the purpose of the investigation in the impugned FIR/RC. The Supreme Court in the case of *Indian Oil Corp.*[10] observed that the mere fact that a complaint relates to a commercial transaction, for which a civil remedy has been availed, is not by itself a ground to quash the criminal proceedings. The Court has to apply its mind to see whether the allegations make out a *prima facie* criminal offence or not. In the present case, as has been observed above, the bare perusal of the impugned FIR/RC, on a *prima facie* basis discloses the ingredients of

cognizable offences under Section 120-B and 420 of the IPC.

16. Therefore, the impugned FIR/RC which originates from the account being declared as 'fraud', can still sustain notwithstanding the account classification being set aside. Moreover, it must be noted that the Court in W.P.(C) 590 of 2016, had set aside the order for classification purely on technical grounds and there was no adjudication regarding the merits of the case. Furthermore, the interim order dated 25th November, 2024**,** staying the operation of the subsequent fraud declaration issued by Respondent No. 3, does not affect the legitimacy of the FIR/RC. The criminal investigation emanating from the impugned FIR/RC pertains to allegations of fraudulent conduct, misrepresentation, and conspiracy, which require scrutiny independent of the parallel civil proceedings concerning fraud classification.

17. Thus, having regard to the settle position of law in relation to the exercise of jurisdiction under Section 528 of Bharatiya Nagarik Suraksha Sanhita, 2023, in the opinion of this Court, the aforenoted allegations against the Petitioner company do not seem to be so remote or improbable so as to merit the exercise of the discretionary jurisdiction of this Court. Accordingly, the present petition is dismissed along with pending applications.

SANJEEV NARULA, J

JANUARY 21, 2025/ab

[10] Supra