

HDFC BANK LIMITED (APPELLANT)

VS.

STATE OF MAHARASHTRA AND ANR (RESPONDENT)

The current appeal challenges a Bombay High Court judgment dated January 10, 2024. The High Court quashed criminal proceedings initiated under Section 138 of the Negotiable Instruments Act, 1881 (NI Act) specifically against Mrs. Ranjana Sharma (Respondent No. 2).

The High Court's decision was based on the fact that the complaint filed by the appellant lacked sufficient averments (detailed allegations) to establish vicarious liability against Mrs. Sharma under Section 141 of the NI Act. The original complainant, feeling aggrieved by this outcome, has now brought the matter before this Court as appellant.

BACKGROUND: CHEQUE BOUNCE CASE AGAINST COMPANY DIRECTOR

This case involves a dispute over a bounced cheque issued by **M/s R Square Shri Sai Baba Abhikaran Pvt. Ltd.** The company, through its directors, including **Mrs. Ranjana Sharma (Respondent No. 2)**, approached HDFC Bank for significant revolving loan facilities to fund their working capital. HDFC Bank provided the loan and gradually increased the loan facility, eventually reaching an amount of Rs. 8 crore. The company and its directors signed various loan and security documents, including a demand promissory note.

When the company failed to repay its dues, the loan account was declared a "Non-Performing Asset" by the bank in 2018. A cheque issued by the company for over Rs. 6 crore bounced due to the account being "blocked." HDFC Bank sent a legal notice to the company and its three directors, but the notice was returned "unclaimed."

HDFC filed a criminal complaint against the company and the three directors, including Mrs. Ranjana Sharma, asking for punishment and recovery of their dues. The Trial Court initially issued summons to them in December 2018. The bank's complaint clearly stated that Mrs. Sharma, as a director, was responsible for the day-to-day functioning, management and working of the company. The complaint also gave details about her involvement in the initial loan negotiations. Company records, including Board resolutions, showed Mrs. Ranjana Sharma was specifically authorized to negotiate with the bank, execute loan and security documents (like demand promissory notes and mortgages), deposit property deeds as security, and handle other related legal formalities on behalf of the company. Additionally, bank sanction letters also required her personal guarantee.

This forms the basis for the legal dispute regarding whether Mrs. Ranjana Sharma can be held individually responsible for the company's bounced cheque.

Arguments by the Bank (Appellant):

The bank's lawyer argued that the documents and complaint clearly pointed to Mrs. Ranjana Sharma's involvement in the daily workings of the company. They stated that she actively participated in loan discussions, was authorized to sign important documents and even gave a personal guarantee for the loan. The lawyer also highlighted the fact that the

company was a family-run business. Given these facts, the High Court made an error in stopping the case against her

Arguments by Mrs. Ranjana Sharma (Respondent):

Mrs. Ranjana Sharma's lawyer disagreed, stating the complaint didn't meet the legal requirements. They argued that someone being "in-charge of" and "responsible" for the company were not legitimate reasons. Law requires both reasons to be met with valid proof. The lawyer cited previous Supreme Court judgments which said that a complaint has to clearly show that the person was in-charge of the conduct of the business at the time of the incident and define the person's role in the company.

QUESTION FOR CONSIDERATION BEFORE THE BENCH

The main point before the Supreme Court was to decide whether the Director's responsibility was clearly stated and if the Bombay High Court had been right to stop the criminal case against Mrs Ranjana Sharma. The High Court took the decision as it felt that the initial complaint against her did not have sufficient details to show she was responsible for the company's actions, especially the incident about the bounced cheque.

This highlights a specific part of the law, **Section 141 of the Negotiable Instruments Act**, which needs to be understood when a company commits an offence and legally the directors or other individuals of that company are to be held accountable.

Section 141 NI Act

When a company commits a cheque offence, anyone in charge of and responsible for the workings of the company at that time will be considered guilty along with the company. In this case, the complaint stated that the directors, including Mrs. Ranjana Sharma were responsible for the company's business and its day-to-day working. The key question was whether this general statement, when looked at, along with all the other information in the complaint, met the legal demands of Section 141.

PAST JUDGMENTS

The Supreme Court reviewed some of its past judgments to ascertain the statements required in a complaint to hold individuals responsible under Section 141 of the Negotiable Instruments Act.

S.M.S. Pharmaceuticals Ltd. vs. Neeta Bhalla (2005): This landmark case highlighted that mere directorship is insufficient; the accused must have an actual role and responsibility in the company's business for Section 141 to apply. The complaint must clearly state that the individual was "in charge of and responsible for the conduct of business."

MonabenKetanbhai Shah vs. State of Gujarat (2004): This ruling stressed that precise legal wording is not necessary in a complaint. If the overall statements in a complaint adequately convey the legal requirements, the case can move forward, without looking for precise technical interpretations.

K.K. Ahuja vs. V.K. Vora (2009) (along with S.P. Mani and Mohan Dairy vs. Dr.Snehalatha Elangovan (2023)): The complainant is only required to have a general understanding of the company's management. It is for the accused, not the complainant, to provide detailed administrative roles and present their defence during the trial.

THE COURT'S CONCLUSION

The Supreme Court determined that verbatim repetition of legal language was not necessary. The main aspect to be understood is that, when read holistically, a complaint must convey that the accused meets the criteria of being responsible under Section 141(1) of the NI Act for them to face trial.

Based on these legal principles, the Court found that the details given regarding Mrs. Sharma's involvement in the company matters, especially the "day-to-day affairs, management and working" along with her active role in procuring the loan and giving guarantees, sufficiently met the legal standard. The averments in the complaint against Mrs. Ranjana Sharma were sufficient to infer her vicarious liability and continue with the trial.

The appeal was allowed, and the judgment of the High Court of Judicature at Bombay, which had quashed the proceedings against Mrs. Ranjana Sharma, was set aside. The order issued by the Metropolitan Magistrate, restoring the process against her, was reinstated, allowing the trial to proceed in accordance with the law.