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No. 08, Arul Nagar, Seera Thoppu,

Maudhanda Kurichi, Srirangam,

Tiruchirappalli – 620102

Phone : +91 94896 71437 – info@iledu.in / Chairman@iledu.in



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SUPREME COURT AFFIRMS HIGH COURT’S STAND: DENOUNCES BORROWER’S ATTEMPT TO EVADE LEGAL OBLIGATIONS THROUGH BASELESS FIRS AND MISUSE OF CRIMINAL JUSTICE SYSTEM

AUTHOR – SURBHI GOEL, INDEPENDENT AUTHOR, EMAIL – SURBHI@HYENACONSULTANTS.COM

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Case overview:

In a significant reaffirmation of the rule of law, the Hon’ble Supreme Court of India recently struck a decisive blow to frivolous attempts at weaponizing criminal law to escape civil liabilities. By upholding the judgment delivered by the Hon’ble High Court of Allahabad in *Criminal Writ Petition No. 2140 of 2023* and dismissing the *Special Leave Petition (Diary No. 42952 of 2024)*, the Apex Court, reinforced that debtors cannot sidestep their legal obligation to repay dues by resorting to misuse the criminal justice system. The judgment highlights that criminal law cannot be employed as a shield to derail legitimate claims arising from contractual obligations.

The case revolved around a borrower who, facing repayment demands from a lender, resorted to filing an FIR accusing the lender of fraudulent practices. The borrower’s allegations, cloaked as criminal misconduct, were in reality disputes rooted in the terms of the financial arrangement.

Legal Representation

The lender was represented by Advocates Mr. Vipul Ganda and Mr. Vinayak Mithal, who assisted Mr. Mukul Rohatgi, Mr. Siddharth Luthra and Mr. Maninder Singh, Senior Advocates, before the Hon’ble Supreme Court and Shri Gopal Swaroop Chaturvedi, Senior Advocate before the Hon’ble High Court. The counsels crafted a compelling defence emphasizing the civil nature of the dispute, before both the courts and advanced forceful arguments to counter the allegations of criminal conspiracy and financial misconduct against the lender.

Arguments Advanced

The counsels for the lender contended that the allegations levelled under Sections 406, 409, 420, 467, 468, and 471 of the Indian Penal Code,

1860, lacked the essential ingredients to sustain criminal charges and the absence of any criminal intent, as required under these provisions, rendered the FIR fundamentally flawed. It was further asserted that the lender’s role was confined to the legitimate disbursement of loan facilities through transparent banking channels, with no evidence of fraudulent inducement, misrepresentation, or wrongful gain. The accusations of breach of trust, forgery, and cheating were dismissed as mere fabrications, crafted to camouflage what was, at best, a civil dispute over repayment obligations. By meticulously dissecting the allegations, the counsels established that the claims were devoid of *mens rea* and did not meet the threshold for invoking criminal provisions, exposing the FIR as a misuse of legal machinery intended to frustrate the lender’s bona fide commercial rights.

Hon’ble High Court’s Reasoning and Decision

The Hon’ble High Court, finding merit in the arguments advanced by the counsels, delivered a meticulously reasoned judgment, drawing a clear distinction between genuine criminal

infractions and thinly veiled attempts to misuse the judicial process, ultimately quashing the FIR as baseless and a clear attempt to evade repayment obligations.

The judgment was rooted in the principle that disputes stemming from contractual relationships are inherently civil in nature and must be resolved through civil remedies. The Hon'ble High Court found no evidence of criminal intent or fraudulent conduct on the part of the lender and noted that the borrower's attempt to weaponize criminal proceedings was a strategy to intimidate the lender and derail legitimate claims.

Supreme Court's re-affirmation

Undeterred by this setback, the borrower escalated the matter to the Apex Court, seeking to overturn the Hon'ble High Court's ruling. However, the Apex Court, after meticulous consideration, refused to interfere, finding no flaw in the Hon'ble High Court's judgment. By rejecting the borrower's Special Leave Petition, the Apex Court affirmed that criminal law cannot be twisted into a tool to obstruct legitimate financial claims, thereby safeguarding the integrity of contractual commitments.

Broader Implications Of The Verdict

This judgment carries significant implications for the interplay between civil and criminal law in financial disputes, reaffirming that contractual disagreements cannot be dressed as criminal offenses to exert undue pressure on lenders. By scrutinizing the absence of criminal intent and emphasizing the sanctity of commercial transactions, the court has drawn a clear line between *bona fide* financial arrangements and *mala fide* attempts to misuse criminal law for personal gain. The decision underscores the judiciary's role in curbing the weaponization of criminal provisions, particularly in cases where the allegations lack foundational elements like *mens rea* or fraudulent conduct. It sends a strong message to borrowers that civil disputes

over repayment obligations must be resolved through appropriate legal forums and not through contrived accusations designed to intimidate or arm-twist financial institutions.

Conclusion

The judgment reinforces the principle that lenders should not be subject to baseless criminal allegations in the absence of genuine fraud or criminal intent. It upholds the integrity of civil agreements and discourages the abuse of criminal law to resolve contractual disputes. This decision provides a crucial precedent for ensuring that commercial matters are adjudicated in the proper legal forums, safeguarding the rights of lenders and promoting fairness in business practices.