

**IN THE HIGH COURT OF JUDICATURE FOR THE STATE OF  
TELANGANA  
HON'BLE SRI JUSTICE NAGESH BHEEMAPAKA**

**WRIT PETITION No. 1843 OF 2026**

**10.06.2026**

**Between:**

Vivimed Labs Limited  
Rep. by its Managing Director Mr. Santosh Varalwar  
and another

..... Petitioner

And

The Central Bureau of Investigation,  
Rep. by its Head of the Department/Director  
& others

..... Respondents

**ORDER:**

Petitioner No.1 is a pharmaceutical manufacturing company established in 1991 and is stated to have engaged in manufacture and supply of pharmaceutical products in both domestic and international markets for more than three decades. According to Petitioners, the company developed a global presence and maintained business relationships with several multinational pharmaceutical companies including GlaxoSmithKline (GSK), Pfizer, Novartis, Procter & Gamble (P&G) and Abbott. They assert that the company expanded across multiple verticals within the pharmaceutical sector and

maintained a workforce of more than 1200 employees, including approximately 250 medical representatives spread across eight States.

1.1. It is stated, during the financial year 2013-14, Petitioner No.1 acquired a USFDA-approved manufacturing facility from Actavis for a consideration exceeding Rs.122 Crores and further invested approximately Rs.100 Crores towards expansion of manufacturing capacity and development of new molecules. It is their case that stabilization of operations and receipt of regulatory approvals took longer than anticipated, thereby resulting in accumulated losses. During the course of such expansion, Respondent No.3 bank extended credit facilities to Petitioner No.1 company for financing its business expansion plans and the loans availed by the company were partly repaid.

1.2. Thereafter, petitioner No. 1 undertook various measures to repay its liabilities by liquidating assets which, according to Petitioners, exceeded the value of its debts. It is specifically contended that the company repaid Rs. 600 Crores by selling businesses and assets and by diluting its shareholding in its offshore subsidiary. Notwithstanding the aforesaid repayments, Petitioners were unable to clear the remaining outstanding loans amounting to Rs. 180.68 Crores

on account of accumulated losses which, according to them, were aggravated by the COVID-19 pandemic. It is further stated that the company experienced cash mismatch on account of funding extended to subsidiary companies by leveraging its balance sheet.

1.3. Petitioner No.1 company also made several attempts to restructure its debt by offering one time settlements to Respondent No. 3 bank on different occasions and under varying terms. However, the restructuring efforts did not materialize, ultimately resulting in the loan account being classified as Non-Performing Asset (NPA) with effect from 28.01.2021. Thereafter, Respondent No.3 bank issued a show cause notice dated 16.08.2023 calling upon petitioners to submit their explanation within fifteen days as to why the account of Petitioner No.1 company should not be categorized and reported as "Fraud" under the applicable Reserve Bank of India guidelines. It is stated that the show cause notice referred to alleged irregularities noticed during periodic monitoring and review of the loan account and alleged suspicious fraudulent activity.

1.4. Petitioners submitted detailed replies dated 08.09.2023 and 01.12.2023 responding to the allegations contained in the show cause notice and furnishing explanations

with regard to each of the alleged irregularities referred to by the bank. The Reserve Bank of India framed the Master Directions on Fraud Risk Management in Commercial Banks, including Regional Rural Banks and All India Financial Institutions, prescribing the procedure to be followed by banks while classifying an account as "Fraud". According to petitioners, the said Master Directions incorporate the principles of natural justice in view of the law laid down by the Hon'ble Supreme Court and mandate strict adherence to procedural safeguards before classification of an account as fraud.

1.5. Petitioners specifically contend that the RBI Master Directions prescribe a mandatory timeline of 180 days for completion of the process relating to classification of an account as "Fraud" and adherence to principles of natural justice constitutes a non-negotiable requirement under the said framework. Nearly two years after submission of Petitioners' replies, Respondent No.4 issued a web notice dated 17.07.2025 inviting bids from Asset Reconstruction Companies registered with the RBI for transfer of the stressed loan account of Petitioner No.1 company, fixing the cut-off date for dues as 28.02.2025. The said notice further notified that e-auction would be held on 10.08.2025, which was subsequently extended to 12.08.2025 by corrigendum dated 04.08.2025.

1.6. According to petitioners, the said web notice was brought to their knowledge only on 09.08.2025 by third parties and said notice categorically referred to the account of Petitioner No. 1 company as "Fraud". It is contended that the web notice was intended only for Asset Reconstruction Companies intending to participate in the bidding process and therefore could neither constitute a valid public notice nor a valid communication of the alleged fraud classification to the Petitioners. Aggrieved by the alleged classification of the account as "Fraud", petitioners instituted Writ Petition No.24697 of 2025 wherein this Court, by order dated 20.08.2025, granted interim suspension of the operation and effect of the classification of the Petitioners account as "Fraud" and all further proceedings relating thereto.

1.7. It is further contended, by virtue of the aforesaid interim order, all proceedings arising from or connected with the fraud classification stood suspended and Respondents were legally interdicted from relying upon or proceeding on the basis of the said classification for any purpose whatsoever. During the subsistence of the interim order, the account of Petitioner No.1 could not legally be treated as a "Fraud" account and any action predicated upon such classification stood eclipsed and rendered unenforceable in law. Notwithstanding the subsistence of the

interim order, officials of Respondents 1 and 2-CBI entered the premises connected with petitioners in the early hours of 20.01.2026 at approximately 7:30 AM for conducting search and seizure operations. Upon enquiry, the officials of Respondents 1 and 2 orally informed petitioners that search and seizure operations were being undertaken on the basis of a complaint issued by Respondent No.3 bank wherein petitioners' account had been declared as "Fraud".

1.8. Petitioners contend that the entire search and seizure operation conducted by Respondents 1 and 2 is wholly illegal, arbitrary, unconstitutional and without jurisdiction inasmuch as the very foundation for initiation of the said action, namely classification of Petitioners 'account as "Fraud", stood suspended by virtue of the interim order passed by this Court. According to petitioners, once the operation and effect of the fraud classification stood suspended, no authority could have acted upon, relied upon or derived jurisdiction from such suspended classification and consequently all further proceedings based thereon automatically became void and *non est* in the eye of law.

1.9. Petitioners further contend that the action of Respondents 1 and 2 in proceeding with the search and seizure operations despite the subsistence of the interim order amounts

to a direct breach and derogation of the authority and dignity of this Court and constitutes an impermissible attempt to circumvent binding judicial orders. Petitioners further contend that the impugned action violates their fundamental rights guaranteed under Articles 14, 19(1)(g) and 21 of the Constitution inasmuch as unlawful intrusion into their premises and business operations without authority of law adversely affects their right to carry on business, right to property and right to personal liberty.

1.10. Respondents 1 and 2 could not have drawn jurisdiction from any communication issued by Respondent No.3 bank once the operation and effect of the alleged fraud classification stood suspended by this Court. Petitioners rely upon the principle that once an order or proceeding is stayed or suspended by a competent Court, the same becomes inoperative and incapable of implementation either directly or indirectly and that all consequential actions founded upon such stayed order must necessarily fall to the ground. Petitioners further contend that respondents are constitutionally and statutorily-bound to comply with the orders passed by this Court and that permitting authorities to override judicial orders would strike at the very foundation of the rule of law.

1.11. According to petitioners, the officials of Respondent Nos. 1 and 2 arrived at the premises connected with the petitioners without any prior notice or intimation and no search warrant or document evidencing authority to conduct the search was initially furnished to them. They allege that Respondents 1 and 2 obtained the signature of Petitioner No.2 on certain documents without disclosing the contents thereof and without furnishing copies of the said documents to petitioners. Despite being shown a copy of the interim order in, the officials of Respondent Nos.1 and 2 continued the search and seizure operations in willful disregard of the said judicial order. Coordinated search and seizure operations were conducted simultaneously at the residential premises of Petitioner No.2 situated at Jubilee Hills, Hyderabad, the registered office premises of Petitioner No.1 company situated at Greenlands, Begumpet, Hyderabad and the factory premises of Petitioner No.1 company situated at Bidar, Karnataka. Coordinated and simultaneous nature of the operations demonstrates that the same were premeditated and undertaken without regard to the subsisting interim order passed by this Court. During the course of the search operations, officials of Respondent Nos. 1 and 2 demanded access to electronic devices, digital records, e-mail accounts, cloud storage

platforms and confidential business data of petitioners. Notwithstanding their objections to the legality of the search proceedings, petitioners extended full cooperation during the operations and permitted access to the material sought by the officials.

1.12. No allegation of non-cooperation can therefore, be levelled against petitioners and they reserve liberty to question the legality of any seizure effected during the course of the operations. Owing to the continued prejudice caused to them and in view of the alleged wilful disregard of the interim order passed by this Court, immediate steps were taken on 20.01.2026 itself to move the present writ petition before this Court.

1.13. Although permission for lunch motion was granted by this Court and the necessary papers were sent to the residence of Respondent No. 2 for execution, the officials of Respondents 1 and 2 obstructed the process by not permitting Petitioners' staff and associates to obtain signatures on writ affidavit and vakalatnama until after filing hours on 20.01.2026. Petitioners therefore, contend that despite utmost diligence and urgency, they were prevented from filing the writ petition on 20.01.2026 itself and consequently the present writ

petition came to be filed on 21.01.2026 at the earliest available opportunity.

1.14. Petitioners further contend that any action arising out of the impugned search and seizure proceedings is liable to be declared null and void since, according to them, the search itself is illegal and all consequential proceedings flowing therefrom necessarily stand vitiated.

2. Respondents 1 and 2 filed a counter affidavit contending that the writ petition is wholly misconceived, legally untenable and founded upon a complete misunderstanding of the scope and effect of the interim order dated 20.08.2025 in Writ Petition No.24697 of 2025. According to Respondents 1 and 2, petitioners have deliberately sought to conflate an administrative classification under banking regulations with a statutory criminal investigation undertaken pursuant to registration of cognizable offences under the penal law. CBI, Banking Securities and Fraud Branch (BSFB), Bengaluru, registered a criminal case vide RC0782025E0003 (RC 03/E/2025/CBI/BSFB/BLR) on 19.11.2025 under Section 120-B read with Sections 420, 468, 471 and 477A of the Indian Penal Code and Section 13(2) read with Section 13(1)(d) of the Prevention of Corruption Act, 1988 in relation to an alleged fraud of Rs.424.43 Crores committed by M/s, Vivimed Labs Ltd.

(A-1), represented by in Directors namely Shri Santosh Varalwar (A-2), Managing Director, Shri Sandeep Varalwar (A-3), Shri Manohar Rao Varalwar (A-4), Shri Subash Varalwar (A-5) and other unknown public servants and private individuals. FIR came to be registered on the basis of a written complaint dated 01.01.2025 lodged by Shri Akhilesh Kumar, Deputy General Manager, State Bank of India, Industrial Finance Branch, Somajiguda, Hyderabad, alleging diversion, siphoning and fraudulent misappropriation of public funds entrusted by a Public Sector Bank.

2.1. Petitioner Company had availed various fund-based and non-fund-based credit facilities from State Bank of India, Industrial Finance Branch, Hyderabad during the period from 2004 to 2021 on the basis of representations allegedly made by the Petitioners regarding the financial solvency of the company, projected revenues and end-use of the sanctioned facilities. According to Respondent Nos. 1 and 2, during the period from 2017 to 2024, the Petitioners, in conspiracy with unknown public servants and private individuals, dishonestly diverted and misappropriated substantial portions of the sanctioned loan funds for unauthorized purposes, thereby causing wrongful loss to the complainant bank and corresponding wrongful gain to the accused persons to the extent of Rs.424.43 Crores. It is

further contended that owing to such acts of diversion and misappropriation, the account of Petitioner Company became irregular and was classified as Non-Performing Asset (NPA) on 28.01.2021.

2.2. A forensic audit was commissioned in respect of the period from 01.01.2017 to 30.06.2021 through M/s. Raju and Prasad, Chartered Accountants, who submitted their Forensic Audit Report dated 18.10.2022. According to Respondent Nos.1 and 2, the aid report disclosed suspicious financial transactions, diversion of loan funds, falsification of accounts and indicators of fraudulent activity. Further, in compliance with the principles of natural justice and the law laid down by the Hon'ble Supreme Court in ***State Bank of India vs. Rajesh Agarwal***<sup>1</sup>, Respondent No.3 had issued a show cause notice dated 16.08.2023 calling upon Petitioner Company to explain why the account should not be classified as "Fraud" and that upon consideration of the explanation submitted by the Managing Director, the competent authority of the bank declared the account as "Fraud" on 20.06.2024. According to Respondent Nos. 1 and 2, the fraud originated at the SBI Industrial Finance Branch, Hyderabad, where the directors of Petitioner Company had allegedly obtained credit facilities

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<sup>1</sup> (2011) 14 SCC 770

through falsification of financial statements and thereafter diverted the sanctioned funds in furtherance of a criminal conspiracy.

2.3. Pursuant to the RBI Master Directions on Fraud Risk Management dated 15.07.2024 and after due authorization, Respondent No.3 lodged a written complaint before the CBI on 01.01.2025, which was received by the CBI, BSFB, Bengaluru on 17.02.2025. After scrutiny of the complaint and upon obtaining statutory consents under Section 6 of the Delhi Special Police Establishment Act from the Government of Telangana dated 25.08.2025 and the Government of India dated 03.11.2025, the CBI formally registered the FIR on 19.11.2025 and commenced investigation in accordance with law.

2.4. Although this Court passed interim order dated 20.08.2025 suspending the administrative classification of the Petitioners 'account as "Fraud", the said order was confined only to the administrative and regulatory consequences flowing from such classification and did not operate either expressly or impliedly as a stay of criminal proceedings, registration of FIR, investigation or search and seizure operations. It is further case of Respondents 1 and 2 that they were neither arrayed as parties in the above Writ Petition nor served with notice therein and therefore, the said interim order cannot be construed as

restraining the CBI from discharging its statutory functions under the Delhi Special Police Establishment Act and the Bharatiya Nagarik Suraksha Sanhita, 2023. According to Respondents 1 and 2, the criminal process originated from the written complaint dated 01.01.2025 much prior to the interim order dated 20.08.2025 and the subsequent registration of FIR and investigative steps constitute an independent statutory process.

2.5. Respondents 1 and 2 have placed reliance on the law laid down by the Hon'ble Supreme Court in ***CBI vs. Surendra Patwa***<sup>2</sup> to contend that criminal proceedings and administrative proceedings operate in distinct and independent spheres and that suspension or setting aside of an administrative action does not invalidate or prohibit criminal investigation into cognizable offences. According to Respondents 1 and 2, the investigation undertaken by the CBI is an independent statutory process under criminal law and not a mere consequential proceeding arising out of the fraud classification under banking regulations.

2.6. It is the further case of Respondents 1 and 2 that the FIR prima facie disclosed serious economic offences involving large-scale diversion and siphoning of public funds

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<sup>2</sup> 2025 INSC 572

and therefore the Investigating Agency approached the Court of the Principal Special Judge for CBI Cases and obtained search warrants under Section 96 of the Bharatiya Nagarik Suraksha Sanhita, 2023. Pursuant thereto, coordinated search and seizure operations were conducted on 20.01.2026 at various premises connected with the accused persons including the registered office premises and residential premises associated with the Petitioners. It is further contended that during the course of the searches it was revealed that the manufacturing unit of Petitioner company was situated at D-125 & 128, Phase-III, IDA, Jeedimetla, Medchal-Malkajgiri District, Telangana - 500055 and that the residential premises of Shri P.S. Phaninder Nath, Chief Financial Officer of Petitioner Company was situated at 3-6-69/B/20/3, Avanthi Nagar, Basheer Bagh, Hyderabad. Respondent Nos. 1 and 2 have also conducted searches at the said locations under Section 185 BNSS in the presence of independent witnesses in order to prevent concealment, destruction or shifting of incriminating material. The search operations resulted in seizure and recovery of substantial incriminating documents and electronic evidence which are required to be scrutinized during the course of investigation.

2.7. Respondents 1 and 2 contend that the offences under investigation involve sophisticated siphoning and

diversion of public funds held in trust by a Public Sector Bank and therefore continuation of the investigation is imperative to trace the flow of diverted funds, identify beneficiaries and ascertain the full extent of the conspiracy. According to them, any interference at this stage would seriously prejudice collection and preservation of evidence and adversely affect investigation into grave economic offences involving public money.

2.8. Respondents 1 and 2 specifically deny the Petitioners' contention that search and seizure operations were arbitrary, illegal or unconstitutional and contend that the searches were conducted strictly pursuant to judicial warrants and in accordance with the procedure prescribed under law. It is further contended that search warrants issued by the Court of the Principal Special Judge for CBI Cases, Hyderabad were duly produced before Shri Santosh Varalwar (A-2) and that his signatures were obtained on the search warrant as acknowledgment of execution in compliance with statutory procedure. They further deny that any signatures were obtained by coercion or without disclosure and contend that such allegations are an afterthought intended to challenge otherwise lawful investigative proceedings.

2.9. According to Respondents 1 and 2, petitioners produced a copy of the interim order passed in Writ Petition No. 24697 of 2025 during the course of the search proceedings, but upon examination of the said order, the officials concluded that interim stay was confined only to the administrative classification of the account as "Fraud" and did not restrain criminal investigation or search proceedings. Continuation of the searches despite production of the interim order did not amount to disregard or defiance of this Court but constituted lawful discharge of statutory duties pursuant to valid judicial authorization. According to Respondents 1 and 2, simultaneous searches conducted at multiple locations were necessitated in order to preserve the integrity of evidence and prevent destruction, concealment or tampering of incriminating material and such synchronized operations constitute standard procedure in investigations involving complex financial crimes.

2.10. Contentions of petitioners *inter alia* regarding violation of Articles 14, 19(1)(g) and 21 of the Constitution are categorically denied. According to Respondents 1 and 2, investigation into grave economic offences involving public funds cannot be characterized as unconstitutional merely because it causes inconvenience to the accused persons. It is further contended that the right to carry on business under

Article 19(1)(g) and the rights guaranteed under Article 21 are subject to reasonable restrictions and procedure established by law and that a valid criminal investigation conducted pursuant to judicial warrants does not infringe constitutional guarantees.

2.11. According to Respondents 1 and 2, petitioners cannot invoke fundamental rights to obstruct or impede lawful investigation into offences involving cheating, forgery, criminal conspiracy and misappropriation of public funds. Respondents 1 and 2 have taken a categorical stand that the interim order dated 20.08.2025 pertained only to administrative and regulatory consequences under banking law and did not extend to criminal proceedings under penal law. It is further contended that the criminal investigation is neither a direct nor indirect implementation of the stayed administrative order, but a separate and independent statutory process undertaken pursuant to disclosure of cognizable offences.

2.12. Respondent Nos.1 and 2 deny that there was any breach, circumvention or overreaching of the interim order and assert that all investigative actions were undertaken strictly within the confines of statutory authority and judicial supervision. Allegations regarding obstruction in filing the writ petition are specifically denied by Respondents 1 and 2 and it is their stand that search team entered the premises at

approximately 07:00 hours on 20.01.2026 and Petitioner No.2 adopted a non-cooperative attitude and attempted to delay the proceedings despite acknowledging the search warrant was issued by the Court of the Principal Special Judge for CBI Cases, Hyderabad. It is further contended that Shri R.K. Shivanna, Additional Superintendent of Police, CBI, BSFB, Bengaluru, permitted Petitioner No.2 to contact his legal counsel and facilitated a group Whats App call between Petitioner No.2, his counsel and the investigating officials, following which the search proceedings resumed at approximately 09:50 hours. The said facts demonstrate that the Respondent Agency acted with transparency and in accordance with law.

3. Respondents 3 and 4 filed a counter affidavit contending that petitioners failed to establish breach of any constitutional provision, statutory right, legal right or violation of any statutory obligation or principles of natural justice. It is specifically contended that the relief sought by them is illegal, arbitrary and unconstitutional, is itself wholly misconceived and liable to be rejected in limine. Petitioners failed to produce any Board Resolution authorizing the deponent to institute the present proceedings on behalf of the company as contemplated under Article 262.14 of the Articles of Association and therefore,

the Writ Petition is also liable to be rejected for want of *locus standi*.

3.1. These respondents had strictly complied with the principles of natural justice as well as the RBI Master Directions on Fraud Risk Management in Commercial Banks (including Regional Rural Banks) and All India Financial Institutions while classifying the account of Petitioner Company as "Fraud". Pursuant to the judgment of the Hon'ble Supreme Court in ***State Bank of India vs. Rajesh Agarwal*** and the consequent amendments introduced in the RBI Master Directions, detailed show cause notices dated 16.08.2023 were issued to the borrower company as well as its guarantors calling upon them to explain why the loan account should not be classified as fraud. According to them, detailed replies dated 08.09.2023 and 01.12.2023 submitted by petitioners were duly examined and considered by the competent authority before a final decision was taken. It is therefore, contended that the allegations regarding violation of principles of natural justice are wholly baseless and contrary to the material on record.

3.2. Petitioners had availed various fund-based and non-fund-based credit facilities from State Bank of India under Multiple Banking Arrangement along with Indian Bank (erstwhile Allahabad Bank), EXIM Bank, Bank of Bahrain &

Kuwait and IFC. According to Respondents 3 and 4, the company was promoted by Dr. V. Manohar Rao (Chairman), Shri Santosh Varalwar (Managing Director) and Shri Subhash Varalwar (Vice Chairman) and was engaged in manufacture of pharmaceutical products. It is contended that Respondent No.3 had initially sanctioned fund-base working capital limits of Rs.25.00 Crores and non-fund-based limits of Rs.9.07 Crores in March, 2012 and the said facilities were enhanced from time to time. As per approval dated 19.07.2019, the facilities comprised FBWC limits of Rs.152.00 Crores, NFBWC limits of Rs.26.50 Crores, Credit Exposure Limit of Rs.3.50 Crores and review of the Term Loan at the outstanding level of Rs.40.26 Crores.

3.3. The account of petitioner/borrower company continuously exhibited serious irregularities and persistent non-compliance including non-submission of financial statements, non-routing of sales through lender accounts, failure to close current accounts maintained with non-lenders, non-submission of stock statements and audit clarifications, failure to adhere to commitments regarding pledge of shares, lack of transparency regarding sale of assets and failure to resolve discrepancies pointed out by auditors. Despite repeated reminders dated 13.01.2021, 21.01.2021, 29.01.2021, 02.02.2021, 19.02.2021, 22.02.2021, 01.03.2021, 16.03.2021 and 20.03.2021 and

meetings held on 16.03.2021 and 01.04.2021, the Petitioner/borrower company failed to regularize the account and consequently the account slipped into NPA with effect from 28.01.2021. Although the account was temporarily upgraded on 26.12.2019, upon clearance of over-dues, Petitioner/borrower company again defaulted despite moratorium benefits extended during COVID-19 period.

3.4. Post-classification of the account as NPA, the account was migrated from IFB Hyderabad to SARG Vertical on 03.09.2021 for focused monitoring and recovery proceedings. According to Respondents 3 and 4, recovery proceedings were initiated before various fora including filing of Original Application before DRT-I, Hyderabad on 22.04.2022 and initiation of proceedings under the SARFAESI Act through issuance of notice under Section 13(2) on 04.03.2022 followed by symbolic possession of secured assets. CMM applications in respect of the Bidar and Jeedimetla units were filed and orders obtained and although compromise proposals were explored, the proposals submitted by the borrower company were found inadequate vis-à-vis the outstanding dues and were accordingly rejected. CIRP proceedings initiated before the Hon'ble NCLT came to be dismissed on 30.07.2024 on the ground that the

date of default fell within the period covered under Section 10A of the IBC.

3.5. In view of the exposure exceeding Rs.100 Crores under Multiple Banking Arrangement, a forensic audit was entrusted to M/s. Raju & Prasad, Chartered Accountants in accordance with extant banking guidelines. Forensic audit report dated 18.10.2022 disclosed serious discrepancies including six instances involving an aggregate amount of Rs.208.66 Crores falling under "Diversion of Funds" and nine instances involving an aggregate amount of Rs.227.93 Crores classified as "Misstatements in Financial Statements / Providing Misleading Information". Audit report concluded that the conduct of Petitioner Company and its promoters attracted Clause 2.2.1(a) relating to "Misappropriation and Criminal Breach of Trust" under the RBI Master Directions on Frauds dated 01.07.2016.

3.6. Pursuant to the findings of the forensic audit, the Fraud Identification Committee passed a resolution dated 11.08.2023 observing existence of prima facie evidence of fraud and advising issuance of show cause notices to the borrower company and its directors/guarantors. Detailed show cause notices dated 16.08.2023 were accordingly issued and replies submitted by the Petitioners vide letters dated 08.09.2023 an

01.12.2023 were referred back to the forensic auditor for further examination and comments. Forensic auditor, after examination of the replies, submitted a further report dated 22.12.2023 opining that the clarifications offered by the borrower company did not materially alter the original findings except certain rectifications in FY 2023-24 relating to previously reported misstatements. Thereby the original conclusions regarding diversion of funds and financial irregularities therefore remained unchanged.

3.7. Thereafter, the matter was placed before the Fraud Identification Committee which, after considering the forensic audit report, supporting records and the replies submitted by the borrower company, declared the account as "Fraud" on 20.06.2024. It is contended that fraud intimation letter dated 10.09.2024 was dispatched to the company informing it about the existence of fraud indicators including diversion of funds, misstatements in financial statements, misleading disclosures and criminal breach of trust. Although the communication was sent to the address furnished by the company itself, the same was returned undelivered with postal endorsement "N/S/O/RTN". It is therefore contended that the Petitioners cannot take advantage of non-service allegedly engineered by themselves and reliance is placed upon the judgment of the

Hon'ble Supreme Court in Vinod Shivappa to contend that once reasonable steps are taken to serve notice, deliberate avoidance by the addressee cannot invalidate the proceedings.

3.8. The contention raised by petitioners regarding non-compliance with the 180-day timeline prescribed under Regulation 4.1.5 of the RBI Master Directions is specifically denied. According to Respondents 3 and 4, the said timeline is merely directory and procedural in nature and intended only for internal monitoring and reporting to RBL. It is contended that the said provision does not provide that delay would automatically nullify or invalidate classification of an account as fraud. Respondent Nos.3 and 4 therefore contend that the fraud classification was undertaken strictly in accordance with RBI guidelines after granting opportunity of hearing, considering the replies submitted by the borrower company and taking a reasoned decision based on the evidence available on record.

3.9. Criminal proceedings initiated by the CBI pursuant to registration of RC0782025E0003 on 19.11.2025 under Section 120-B read with Sections 420, 468, 471 and 477A IPC and Section 13(2) read with Section 13(1)(d) of the Prevention of Corruption Act, 1988 pertain to cognizable offences involving alleged fraud of Rs.424.43 Crores and stand on an independent statutory footing. FIR came to be registered based on a written

complaint dated 01.01.2025 submitted by Shri Akhilesh Kumar, Deputy General Manager, State Bank of India, Industrial Finance Branch, Somajiguda, Hyderabad and that the relief sought by the Petitioners against Respondent Nos.3 and 4 in relation to the criminal proceedings is wholly misconceived.

3.10. Respondents 3 and 4 contend that the principles laid down in ***State Bank of India vs. Rajesh Agarwal*** concerning principles of natural justice in fraud classification proceedings do not mandate grant of hearing prior to registration of FIR or initiation of criminal investigation into cognizable offences. Reliance is placed upon the judgments of the Hon'ble Supreme Court in ***Union of India vs. W.N. Chadha***<sup>3</sup> and ***Anju Chaudhary vs. State of U.P.***<sup>4</sup> to contend that criminal law does not contemplate grant of pre-investigation hearing to the accused and that requiring such hearing would frustrate investigation and defeat the criminal administration.

3.11. Respondents 3 and 4 further place reliance upon the judgment of the Hon'ble Supreme Court in ***CBI vs. Surendra Patwa***<sup>5</sup> to contend that criminal investigation pursuant to FIR can proceed independently of administrative

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<sup>3</sup> 1993 SCC (Cri) 1171

<sup>4</sup> (2013) 6 SCC 384

<sup>5</sup> 2025 INSC 572

proceedings undertaken by banks under RBI Master Directions. According to them, the Hon'ble Supreme Court has specifically held that even if administrative action relating to fraud classification is set aside on procedural grounds, criminal investigation into cognizable offences is not rendered invalid. It is contended that the principles of *audi alteram partem* apply to classification of an account as fraud but not to registration of FIR which merely triggers criminal investigation.

3.12. It is further case of Respondents 3 and 4 that the interim order dated 20.08.2025 in Writ Petition No. 24697 of 2025 pertained only to suspension of the administrative classification of the account as "Fraud" and did not operate as a restraint against criminal investigation undertaken by the CBI pursuant to the complaint dated 01.01.2025. As per the records available before this Court, the said interim order was extended only up to 25.09.2025 and no further extension appears to have been granted thereafter. The investigative actions undertaken by Respondents 1 and 2 pursuant to registration of FIR therefore cannot be faulted.

3.13. It is contended that the allegations made by Petitioners in paragraphs 18 to 33 of the writ affidavit primarily concern investigative steps undertaken by Respondent 1 and 2 under the Delhi Special Police Establishment Act, 1946 and the

Bharatiya Nagarik Suraksha Sanhita, 2023 and therefore, the detailed rebuttal offered by Respondents 1 and 2 adequately answers the allegations made in the writ petition. It is contended that once cognizable offences were disclosed in the complaint and FIR, the consequential investigation and search proceedings undertaken by the competent investigating agency cannot be interdicted in exercise of writ jurisdiction.

4. Petitioners filed a reply contending that this writ petition does not seek adjudication on the merits of the criminal investigation or quashing of the FIR dated 19.11.2025, but is confined to the legality and jurisdictional validity of the coercive measures undertaken by Respondents 1 and 2 during the subsistence of the interim order dated 20.08.2025 in Writ Petition No.24697 of 2025. According to petitioners, the very basis of the search and seizure operations conducted on 20.01.2026, namely the classification of petitioners 'account as "Fraud" by Respondent Nos.3 and 4, stood suspended by virtue of the aforesaid interim order and consequently all further proceedings arising therefrom also stood interdicted.

4.1. The complaint lodged by Respondents 3 and 4 and the consequent criminal proceedings initiated by the CBI are inextricably linked to the declaration of petitioners 'account as "Fraud", therefore, suspension of operation and effect of such

classification necessarily renders all consequential coercive actions unsustainable. Distinction sought to be drawn by the Respondents between administrative proceedings and criminal investigation is artificial in the facts of the present case, inasmuch as the CBI itself proceeded on the basis of the fraud classification and the forensic audit findings which formed part of the fraud declaration process.

4.2. Pursuant to the arrangement entered into between Respondent No.3 Bank and the Asset Reconstruction Company (ARC), the entire debt together with all rights, title and interest in the financing documents, security interests and related records stood transferred to the ARC upon payment of purchase consideration of Rs.153.33 Crores by the ARC to the Respondent Bank. Upon such transfer, no outstanding debt remained payable to Respondents 3 and 4 and all original documents, title deeds and records presently remain in the custody and control of the ARC. It is therefore, contended that any information required for purposes of investigation could have been obtained directly from the ARC and there existed no justification whatsoever for resorting to coercive search and seizure proceedings against petitioners.

4.3. Assuming without admitting that registration of the FIR constitutes an independent statutory exercise, the coercive

measures undertaken pursuant thereto including search and seizure must independently satisfy the statutory requirements of existence of edible material and proper application of mind. Respondents 1 and 2 have proceeded on assumptions which effectively pre-judge issues presently *sub judice* before this Court in Writ Petition No. 24697 of 2025. According to petitioners, the counter filed by Respondents 1 and 2 repeatedly proceeds on the premise that the fraud classification process undertaken by Respondents 3 and 4 was validly completed in strict compliance with principles of natural justice, despite the legality of the said classification itself being under challenge and the operation thereof standing suspended. That apart, petitioners specifically dispute the allegation of fraud to the extent of Rs.424.43 Crores as stated in the counter of Respondents 1 and 2, which is wholly inconsistent, unsupported by disclosed material and indicative of non-application of mind for the reason that the outstanding principal amount due as on date was only Rs.184.84 Crores and respondents have failed to disclose the basis on which the higher figure of Rs.424.43 Crores has been arrived at.

4.4. Petitioners contend that mere fact that the account was classified as NPA on 28.01.2021 and subjected to forensic audit does not by itself establish any fraudulent conduct. It is

therefore, contended that reliance upon such disputed and untested material for undertaking coercive action is arbitrary and premature. In the absence of adjudication regarding validity of the fraud classification proceedings, the Respondents were required to exercise caution and independently assess the necessity and legality of coercive action before conducting search and seizure operations.

4.5. It is also stated, show cause notice dated 16.08.2023 was followed by detailed replies dated 08.09.2023 and 01.12.2023 and thereafter, no communication whatsoever was received from Respondents 3 and 4 for nearly two years. During the said prolonged period, petitioners were under a *bona fide* belief that the proceedings were not being pursued. Complaint to the CBI dated 01.01.2025 and the subsequent web notice dated 17.07.2025 declaring the account as "Fraud" demonstrate that the later actions undertaken by the Respondents are an afterthought and not *bona fide*.

4.6. The contention of Respondents 1 and 2 that they are not bound by the interim order dated 20.08.2025 merely because they were not parties to Writ Petition No. 24697 of 2025 is denied. Once the operation and effect of the fraud classification stood suspended by order of this Court, no authority, whether party to the proceedings or otherwise, could

derive jurisdiction or legal benefit from such suspended classification. It is contended that orders passed by constitutional courts operate in rem to the extent they suspend the legal effect of an action and therefore, all consequential coercive measures based upon such suspended classification are rendered without jurisdiction.

4.7. Search warrants relied upon by Respondents 1 and 2 were obtained in January, 2026, subsequent to the interim order dated 20.08.2025. The counter filed by Respondents 1 and 2 is conspicuously silent as to whether the subsistence of the interim order suspending the fraud classification was disclosed to the learned Court which issued the search warrants under Section 96 of the Bharatiya Nagarik Suraksha Sanhita, 2023. It is specifically denied that search warrants were duly produced and disclosed to them in the manner asserted by Respondents 1 and 2 and that neither copies of the warrants were furnished nor were the contents thereof disclosed at the time of the search operations. It is further contended that signatures of Petitioner No.2 were obtained on certain documents without disclosure of the nature or contents thereof and without affording an opportunity to read or understand the same. According to the Petitioners, mere obtaining of signatures under such circumstances cannot constitute valid

acknowledgment of execution of search warrants or compliance with mandatory procedural safeguards.

4.8. It is the further case of petitioners that respondents have failed to demonstrate any urgency or necessity for invoking coercive powers such as search and seizure, particularly when they had consistently demonstrated willingness to cooperate and resolve the outstanding dues. Multiple One Time Settlement proposals had been submitted from time to time and Rs. 30 Crores had even been deposited in December, 2022 through an investor towards part payment under an OTS proposal, which amount was later refunded on 30.03.2023 upon rejection of the proposal. Subsequently enhanced their settlement offer to Rs. 164.36 Crores vide letter dated 27.09.2021, which according to petitioners was substantially higher than the amount of Rs.153.33 Crores ultimately realized by the Bank through assignment of debt to the ARC pursuant to e-auction conducted in August, 2025.

4.9. Petitioners further contend that continuation of coercive measures during subsistence of the judicial interdiction amounts to violation of their fundamental rights guaranteed under Articles 14, 19 and 21 of the Constitution and constitutes arbitrary and disproportionate exercise of power without authority of law.

5. Heard Sri B. Avinash Desai, learned Senior Counsel assisted by Sri Tarun G. Reddy, learned counsel for petitioners, Sri Srinivas Kapatia, learned Special Public Prosecutor for CBI and Sri B.S. Prasad, learned Senior Counsel assisted by M/s Pearl Law Associates on behalf of Respondents 3 and 4.

6. The principal question that falls for consideration is whether the interim order dated 20.08.2025 in Writ Petition No. 24697 of 2025 suspending the operation and effect of the classification of petitioners' account as 'Fraud' also operates as a legal interdiction against continuation of criminal investigation, including search and seizure operations undertaken by Respondents 1 and 2 pursuant to registration of FIR in relation to cognizable offences.

7. Before advertng to the rival contentions, it would be apposite to briefly notice the factual backdrop in which the present writ petition has arisen. Petitioners contend that the account of Petitioner No.1 was classified as "Fraud" by Respondents 3 and 4 pursuant to proceedings initiated under the RBI Master Directions on Fraud Risk Management in Commercial Banks and All India Financial Institutions. Challenging the said classification, petitioners instituted Writ Petition No. 24697 of 2025, wherein interim order dated 20.08.2025 came to be passed suspending the operation and

effect of the fraud classification and all further proceedings pursuant thereto.

8. It is the specific case of petitioners that during the subsistence of the aforesaid interim order, Respondents 1 and 2-CBI conducted coordinated search and seizure operations on 20.01.2026 at various premises connected with petitioners, allegedly on the basis of the fraud classification itself. According to petitioners, once the fraud classification stood suspended, all consequential proceedings founded thereon also automatically stood interdicted and therefore, the impugned search and seizure operations are rendered wholly without jurisdiction.

9. *Per contra*, Respondents 1 and 2 as well as Respondents 3 and 4 would contend that criminal proceedings initiated by the CBI stand on an entirely independent statutory footing and cannot be conflated with the administrative classification of the account as "Fraud" under the RBI framework. It is contended that FIR came to be registered pursuant to disclosure of cognizable offences involving cheating, criminal conspiracy, falsification of accounts, diversion and siphoning of public funds and that the investigation proceeds under the statutory framework of the Bharatiya Nagarik Suraksha Sanhita, 2023 and the Delhi Special Police Establishment Act, 1946.

10. The record placed before this Court discloses that CBI registered FIR dated 19.11.2025 for offences punishable under Sections 120-B, 420, 468, 471 and 477A of the Indian Penal Code and Section 13(2) read with Section 13(1)(d) of the Prevention of Corruption Act, 1988. The FIR pertains to allegations relating to diversion and siphoning of public funds involving an amount stated to be Rs.424.43 Crores.

11. The material on record further discloses that FIR was preceded by a written complaint dated 01.01.2025 lodged by the Deputy General Manager, State Bank of India, Industrial Finance Branch, Somajiguda, Hyderabad. It also emerges from the record that CBI obtained the requisite statutory consents under Section 6 of the Delhi Special Police Establishment Act from the Government of Telangana and the Government of India prior to registration of the FIR. It is equally not in dispute that the investigating agency approached the competent Court and obtained search warrants under Section 96 of the Bharatiya Nagarik Suraksha Sanhita, 2023 pursuant to which coordinated searches were conducted on 20.01.2026 at various premises connected with the Petitioners including the residential premises of Petitioner No.2, the registered office premises of Petitioner No. 1 company and other locations connected with the investigation.

12. The entire edifice of Petitioners' case rests on the proposition that once the operation and effect of the fraud classification stood suspended by virtue of the interim order dated 20.08.2025 passed in Writ Petition No.24697 of 2025, every subsequent proceeding arising therefrom, including criminal investigation and search proceedings, automatically became unenforceable and legally impermissible. This Court is unable to accept the said contention in the broad and sweeping manner canvassed by the Petitioners.

13. A careful and contextual reading of the interim order dated 20.08.2025 in W.P. No.24697 of 2025 leaves no manner of doubt that the said order was rendered in proceedings concerning the legality of the administrative classification of the Petitioners' account as "Fraud" under the RBI Master Directions. The order suspended the operation and effect of such classification and all further proceedings pursuant thereto insofar as the regulatory and administrative consequences flowing from such classification were concerned. The interim order cannot, by interpretative expansion, be converted into a blanket embargo against exercise of statutory powers under criminal law.

14. The distinction between administrative proceedings undertaken under the RBI regulatory framework and criminal

proceedings initiated in relation to cognizable offences is too well settled to admit any serious controversy. Administrative classification of an account as "Fraud" under banking regulations operates within the regulatory and financial sphere. Criminal investigation, on the other hand, pertains to investigation into offences against the penal law of the land and is governed by an entirely distinct statutory framework.

15. Merely because certain foundational facts overlap between the administrative proceedings and the criminal investigation, it cannot be held that suspension of the administrative action, automatically, extinguishes or nullifies the criminal process. The jurisdiction exercised by the investigating agency in relation to cognizable offences does not derive its authority merely from the administrative classification of the account as "Fraud". Once information disclosing commission of cognizable offences is received and the investigating agency forms an opinion warranting registration of FIR, the investigation proceeds under the independent statutory regime governing criminal law.

16. The contention advanced on behalf of petitioners that the complaint lodged by Respondents 3 and 4 and the subsequent criminal proceedings are "inextricably linked" with the fraud classification also does not merit acceptance in the

manner urged. The complaint furnished by the bank may certainly constitute information triggering investigation. However, once the investigating agency applies its mind, the material placed before it and proceeds to register FIR in relation to cognizable offences, the criminal investigation assumes an independent statutory character.

17. This Court also finds considerable substance in the contention advanced by Respondents 1 and 2 that they were not parties to Writ Petition No. 24697 of 2025 and that no specific restraint order was ever passed restraining the CBI from registering FIR, continuing investigation or conducting search proceedings. Petitioners seek to place an expansive interpretation upon the expression "all further proceedings" employed in the interim order dated 20.08.2025. Such interpretation, in the considered view of this Court, would amount to enlarging the scope of the interim order far beyond the context in which it was passed.

18. Interim orders are required to be construed in the context of the proceedings in which they are rendered. The proceedings in Writ Petition No. 24697 of 2025 concerned the validity of the fraud classification under the RBI Master Directions and the administrative consequences arising therefrom. The said order cannot reasonably be interpreted as

an omnibus interdiction against criminal investigation into allegations of cheating, forgery, criminal conspiracy and diversion of public funds.

19. Petitioners have repeatedly relied upon the principle that when the basis of an action is stayed, all consequential proceedings must necessarily fall. There can be no quarrel with the aforesaid proposition in an appropriate factual context. However, the principle cannot be mechanically extended to criminal investigation into cognizable offences undertaken pursuant to statutory powers and judicial authorization. Such investigation cannot be equated with purely consequential administrative action mechanically flowing from the fraud classification,

20. The allegations contained in the FIR pertain to offences punishable under Sections 120-B, 420, 468, 471 and 477A IPC together with offences under the Prevention of Corruption Act, 1988 involving allegations of diversion and siphoning of substantial public funds. Investigation into such allegations cannot ordinarily be interdicted in exercise of writ jurisdiction merely because the administrative classification of the account as "Fraud" is under challenge before a constitutional Court.

21. It is also a settled principle of law that the extraordinary jurisdiction of this Court under Article 226 of the Constitution ought not to be exercised to stifle legitimate criminal investigation at a nascent stage except in rare and exceptional cases where patent lack of jurisdiction, manifest *mala fides* or clear abuse of process is demonstrated. Petitioners, in the considered opinion of this Court, have failed to establish existence of such exceptional circumstances warranting interference. The material placed on record discloses that the search operations were conducted pursuant to judicial warrants issued by the competent Court under Section 96 of the Bharatiya Nagarik Suraksha Sanhita, 2023. Whether the allegations levelled in the FIR are ultimately established or not falls squarely within the domain of investigation and, if necessary, trial before the competent criminal court. At this stage, this Court would be loath to undertake an exercise which may have the effect of prematurely interdicting the investigative process itself.

22. Petitioners have also urged that all relevant financial documents and record presently remain in the custody of the Asset Reconstruction Company pursuant to assignment of debt and therefore no useful purpose could have been served by conducting searches at the premises of petitioners. This

contention also cannot persuade this Court to interdict the investigation. The scope of criminal investigation is not necessarily confined to recovery of financial records alone. Investigation into economic offences may legitimately extend to electronic devices, digital correspondence, internal communications, accounting data, cloud storage, transactional trails and other forms of material relevant for tracing the alleged conspiracy and movement of funds. The investigating agency cannot be precluded from undertaking lawful searches merely because certain categories of documents are stated to be in possession of the ARC.

23. Equally untenable is the contention that the investigating agency has allegedly pre-judged the guilt of the Petitioners by using expressions such as "fraud", "diversion" and "criminal conspiracy" in the Counter Affidavit. The Court must examine the substance of the pleadings in the context of the stage of investigation. Mere articulation of allegations forming part of the FIR or investigation cannot, by itself, lead to an inference that the entire investigation stands vitiated by bias or pre-determination. The allegations raised by petitioners regarding non-furnishing of search warrants, obtaining signatures without disclosure, obstruction in securing legal assistance and other alleged procedural irregularities during the

conduct of search operations involve seriously disputed questions of fact. Such disputed factual controversies ordinarily cannot be adjudicated in proceedings under Article 226 of the Constitution on the basis of competing affidavits, particularly when the investigation is still at a nascent stage. Petitioners are not remediless in this regard and it remains open to them to avail remedies available under criminal law in accordance with law.

24. This Court also finds considerable force in the reliance placed by Respondents 1 to 4 upon the judgment of the Hon'ble Supreme Court in ***CBI vs. Surendra Patwa***. The said decision arose out of a batch of matters wherein various High Courts had quashed not only the administrative action of classification of accounts as "Fraud" under the RBI Master Directions, but also the consequential FIRs. and criminal proceedings initiated by the CBI. The Hon'ble Supreme Court, while considering the distinction between administrative proceedings and criminal proceedings, categorically held that the two operate in separate and distinct spheres.

25. The Hon'ble Supreme Court observed that the RBI Master Directions provided a framework enabling banks to detect and report frauds and that banks had initiated both administrative actions as well as criminal proceedings in

relation to fraudulent activities detected by them. The Court noted that the borrowers had challenged not only the fraud classification but also the criminal proceedings initiated consequent thereto. The Hon'ble Court noticed that several High Courts had quashed criminal proceedings on the premise that the same were consequential to the fraud classification, which had itself been invalidated on the ground of violation of principles of natural justice.

26. The Hon'ble Supreme Court extracted and relied upon the observations made in ***State Bank of India vs. Rajesh Agarwal*** and reiterated that principles of natural justice are not attracted at the stage of registration of criminal offences. The Court expressly held that even if the administrative action of declaring an account as "Fraud" is set aside on technical or legal grounds, the same would not *ipso facto* nullify or invalidate criminal proceedings initiated in respect of cognizable offences. The Hon'ble Supreme Court further observed that the foundational facts may overlap; however, criminal proceedings and administrative proceedings remain conceptually and legally distinct. The relevant portion reads as follows:

" An FIR, by taking cognizance of an offence, merely sets the law into motion. This has nothing to do with a decision on the administrative side, made by a different authority. Merely because the facts are same or similar, one cannot say that in the absence of a valid

administrative action, no offence which is otherwise cognizable, can be registered."

The Hon'ble Supreme Court further held:

" Even in a case where an FIR is registered based on an administrative action, setting aside the latter on a technical or a legal premise would not ipso facto nullify the former."

27. The aforesaid principles laid down in **CBI vs. Surendra Patwa** squarely apply to the controversy involved in the present writ petition. In the case on hand, the principal contention advanced by petitioners is that once the fraud classification stood suspended by the interim order dated 20.08.2025, all consequential criminal proceedings including search and seizure operations also automatically stood interdicted. The ratio laid down in **Surendra Patwa**, however, clearly negates such a proposition and recognizes the independent statutory character of criminal proceedings. The said judgment therefore, substantially supports the stand of Respondents and militates against the principal contention urged on behalf of petitioners.

28. Respondent No. 1 further placed reliance upon the judgment of the Hon'ble Supreme Court in **CBI vs. Sarvodaya Highways Ltd.** The said case pertained to allegations involving fraudulent procurement of credit facilities from a bank by

furnishing fabricated work orders and forged documents. The High Court had quashed the FIR and criminal proceedings on the basis of a one-time settlement entered into between the borrower company and the bank. The Hon'ble Supreme Court reversed the said decision and held that economic offences involving public funds cannot ordinarily be quashed merely because financial settlements have been entered into between the parties.

29. The Hon'ble Supreme Court noted that an internal inquiry conducted by the bank had revealed manipulation of records and commission of fraud involving Rs.52.50 Crores, pursuant to which FIR came to be registered by the CBI. The Court records that although a one-time settlement dated 05.03.2018 had been entered into between the borrower company and the bank, the accused persons nevertheless sought quashing of the criminal proceedings arising from the FIR. The Hon'ble Supreme Court recorded the submission of the learned Additional Solicitor General that settlement between the borrower and the bank could not obliterate criminal liability arising out of an offence involving fabrication of documents, cheating and economic offences affecting public funds.

30. The Hon'ble Court also extracted the principles laid down in ***Gian Singh vs. State of Punjab***<sup>6</sup> and reiterated that economic offences involving public institutions and offences under special statutes stand on a different footing and ordinarily ought not to be quashed merely because a settlement has been arrived at between the parties. The Hon'ble Supreme Court reiterated the following principle:

" Any compromise between the victim and the offender in relation to offences under special statutes like the Prevention of Corruption Act or offences committed by public servants while working in that capacity, etc.; cannot provide any basis for quashing criminal proceedings involving such offences."

31. The judgment further emphasizes that allegations involving use of forged documents, misrepresentation before banks and diversion of public funds constitute grave economic offences having serious societal impact and cannot be treated as purely private disputes. The Hon'ble Supreme Court observed that offences affecting the banking system and public financial institutions have larger ramifications on public confidence in the financial system. The Court thereafter, reiterates the limited scope of judicial interference at the stage of investigation and quashing of criminal proceedings in matters involving economic offences. The principles laid down in ***CBI v. M/s Sarvodaya***

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<sup>6</sup> (2012) 10 SCC 303

**Highways Ltd.** lend support to the stand of Respondent No.1 that criminal proceedings involving allegations of diversion of public funds, cheating, forgery and conspiracy cannot ordinarily be interdicted in exercise of writ jurisdiction merely because parallel civil, administrative or settlement proceedings exist. Though the factual matrix in the said case pertained to one-time settlement and quashing of FIR, the broader principle emphasized therein regarding the independent and serious nature of economic offences is clearly attracted to the present case as well.

32. Respondents 1 and 2 also placed reliance upon the judgment of the Hon'ble Supreme Court in **Anil Bhavarlal Jain v. State of Maharashtra**<sup>7</sup>. The said case involved allegations of diversion of loan funds, fraudulent valuation of collateral security and offences under Sections 409, 420 and 120-B IPC read with provisions of the Prevention of Corruption Act. The accused therein sought quashing of FIR and consequential proceedings inter alia on the ground that settlement had been arrived at with the bank and that the dispute was predominantly civil in nature. The Hon'ble Supreme Court emphasized that economic offences involving banks and public financial institutions cannot lightly be quashed merely because

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<sup>7</sup> 2024 INSC 1039

civil proceedings, settlements or repayment arrangements exist between the parties. The Court reiterated that allegations involving fraudulent diversion of funds and cheating disclose cognizable offences requiring investigation under criminal law. The Court further observed that once the FIR discloses commission of cognizable offences, investigation ought ordinarily to be permitted to proceed unhindered.

33. The aforesaid decision in **Anil Bhavarlal Jain's** case also supports the stand taken by Respondents 1 and 2 in the present proceedings. The underlying principle emerging from the said judgment is that criminal proceedings involving allegations of bank fraud, diversion of funds and offences affecting public money stand on a different footing from purely civil disputes and therefore ought not to be interdicted at the threshold in exercise of extraordinary jurisdiction. Petitioners, on the other hand, placed reliance upon the judgment of the Hon'ble Supreme Court in **Rajesh Agarwal's case**. Petitioners relied upon the said decision to contend that principles of natural justice are mandatory before classification of an account as "Fraud" and that such classification has serious civil consequences. The Hon'ble Supreme Court in the said judgment held that borrowers must be afforded an opportunity of hearing

before their accounts are classified as fraudulent under the RBI Master Directions.

34. The said judgment emphasizes that declaration of account as "Fraud" carries severe civil consequences including blacklisting and reputational prejudice and therefore adherence to principles of natural justice is mandatory. The Hon'ble Supreme Court held that borrowers are entitled to notice, disclosure of material and opportunity of representation prior to such classification. The relevant principle emerging therefrom is that the RBI Master Directions must be read consistent with constitutional requirements of fairness and procedural due process.

35. There can be no dispute with the legal proposition laid down in ***Rajesh Agarwal's case***. Indeed, it is precisely on the basis of the said principle that the interim order dated 20.08.2025 came to be passed in Writ Petition No. 24697 of 2025 suspending the fraud classification. However, the reliance placed by the Petitioners upon the said judgment does not carry the matter any further insofar as the present writ petition is concerned. The issue involved in the present proceedings is not the legality of the fraud classification itself, but whether suspension of such classification automatically nullifies criminal investigation undertaken in respect of cognizable

offences. On that specific issue, the subsequent judgment in ***Surendra Patwa's case*** expressly clarifies that administrative proceedings and criminal proceedings stand on different footings. Accordingly, while ***Rajesh Agarwal's case*** supports petitioners on the aspect of natural justice in fraud classification proceedings, it does not support the broader proposition canvassed by petitioners that criminal proceedings automatically become unenforceable upon suspension of the fraud classification.

36. Petitioners also relied upon the judgment reported in ***Gian Singh vs. State of Punjab*** to contend that criminal proceedings arising out of predominantly civil or commercial disputes may, in appropriate cases, be quashed where continuation thereof would amount to abuse of process. A careful consideration of the principles laid down in ***Gian Singh vs. State of Punjab*** demonstrates that the Hon'ble Supreme Court itself carved out a clear distinction between private disputes having overwhelmingly civil flavour and serious economic offences involving public institutions and offences under special statutes. The Hon'ble Supreme Court categorically held that offences involving public funds, corruption or serious economic offences affecting society at large ordinarily ought not to be quashed merely on the basis of settlement or private

compromise. Thus, far from supporting the Petitioners 'case, the broader ratio of **Gian Singh's case** substantially supports the stand of the Respondents that criminal proceedings involving allegations of economic offences and diversion of public funds should ordinarily be permitted to proceed in accordance with law.

37. Likewise, the principles laid down by the Hon'ble Supreme Court in **Union of India v. W.N. Chadha**<sup>8</sup> and **Anju Chaudhary vs. State of U.P.**<sup>9</sup> reinforce the settled position that criminal investigation ordinarily ought not to be obstructed by insistence upon pre-investigation adjudication or prior hearing to the proposed accused persons. The investigative process under criminal law must necessarily be allowed to proceed unhindered so long as it remains within the bounds of statutory authority. The contention advanced on behalf of petitioners that continuation of the investigation amounts to overreaching or derogating from the authority of this Court also cannot be accepted. In the absence of any express restraint order against criminal investigation or search proceedings, the lawful exercise of statutory powers pursuant to judicial

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<sup>8</sup> 1993 supp 4 SCC 260

<sup>9</sup> (2013) 6 SCC 384

authorization cannot be construed either as contemptuous conduct or as deliberate circumvention of judicial orders.

38. This Court is therefore, of the considered opinion that petitioners have failed to establish that the search and seizure operations conducted on 20.01.2026 are *ex facie* without jurisdiction, manifestly illegal or in direct contravention of the interim order passed by this Court in Writ Petition No. 24697 of 2025. On the contrary, the material placed on record demonstrates that the investigation is being carried out pursuant to registration of FIR in relation to cognizable offences and under judicial supervision.

39. The extraordinary jurisdiction of this Court under Article 226 of the Constitution cannot be invoked to interdict lawful criminal investigation merely on the basis of the contentions urged in the present writ petition. Entertaining such a challenge at this stage would amount to trenching upon the statutory domain of the investigating agency and prematurely stalling investigation into serious allegations involving public funds.

40. For all the aforesaid reasons, this Court is of the considered opinion that petitioners failed to make out any case warranting interference with the ongoing criminal investigation or the search and seizure operations conducted by Respondent

Nos. 1 and 2 pursuant to judicial warrants. The interim order dated 20.08.2025 passed in Writ Petition No. 24697 of 2025 suspending the administrative classification of petitioners' account as "Fraud" cannot be construed as a prohibition against registration of FIR, continuation of criminal investigation or conduct of search and seizure operations in relation to cognizable offences.

41. For the reasons recorded herein above, this Court holds that the writ petition is devoid of merit and liable to be dismissed. Accordingly, the Writ Petition is dismissed. No costs.

42. Consequently, the miscellaneous Applications, if any shall stand closed.

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**NAGESH BHEEMAPAKA, J**

10<sup>th</sup> June 2026

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