IN THE HIGH COURT FOR THE STATE OF TELANGANA
AT HYDERABAD

TUESDAY, THE SIXTEENTH DAY OF JUNE
TWO THOUSAND AND TWENTY SIX

PRESENT

THE HONOURABLE THE CHIEF JUSTICE SRI APARESH KUMAR SINGH
AND
THE HONOURABLE SRI JUSTICE G.M. MOHIUDDIN

WRIT APPEAL NO: 312 OF 2026

Writ Appeal under clause 15 of the Letters Patent Appeal Preferred Against Order Dated 05/02/2026 in WP No 25171 of 2024 on the file of the High Court.

Between:

1. Ms. BNR Infra and Leasing, Office at. Flat No. 53, G-4, Ashwini Homes Road No. 70, Jubilee Hills Hyderabad, 500033. Represented by its Managing Director. B. Narsihma Reddy S/o B. Linga Reddy Aged about. 45 years, occ. Business R/o Villa No. 25, Villa Scapes, Gandipet Hyderabad, Telangana, 500075.
2. Sri. B. Narsihma Reddy, S/o Late B. Linga Reddy Aged about. 45 years, occ. Business R/o Villa No. 25, Villa Scapes, Gandipet, Hyderabad.
3. Soma Bindu Sagar Reddy, S/o China Malla Reddy Aged about. 38 years, Occ Partner (Ms. BNR Infra and Leasing) R/o D.No. 18-828, Shanthi Nagar Miryalguda, Nalgonda District 508207

...APPELLANTS

AND

1. Union of India, Represented by its Finance Secretary New Delhi
2. The Regional Manager, State Bank of India, Regional Business Office Region V-Patny Circle Secunderabad
3. Senior Supervisory Manager, (State Bank of India) Through Regional Director Reserve Bank of India Sahid Bhagat Singh Road, Fort Mumbai 40001.
4. Reserve Bank of India, Through Regional Director Saifabad, Hyderabad

...RESPONDENTS

I.A. NO: 2 OF 2026

Petition under Section 151 CPC praying that in the circumstances stated in the affidavit filed in support of the petition, the High Court may be pleased to, Pending disposal of the above Writ Appeal, Suspend the operation, effect and implementation of the order dated 05.02.2026 passed in W.P.N0.25171 of 2024 and consequently stay the effect and operation of the fraud classification of the Appellant's loan account vide proceedings bearing No.FMSBI16040040 dated 02.11.20126 including all consequential actions and reporting to the Central Fraud Registry

Counsel for the Appellant: SRI. V MURALI MANOHAR

Counsel for the Respondent No. 1: SRI. N BHUJANGA RAO
DEPUTY SOLICITOR GENERAL OF INDIA

Counsel for the Respondent No.2: SRI CHITHARI PRABHAKAR, SC

Counsel for the Respondent No.4: Ms. PRATUSHA BOPPANA REP
M/s. N LEGAL

The Court made the following: ORDER

IN THE HIGH COURT FOR THE STATE OF TELANGANA
AT HYDERABAD

THE HON'BLE THE CHIEF JUSTICE SRI APARESH KUMAR SINGH
AND
THE HON'BLE SRI JUSTICE G.M.MOHIUDDIN

WRIT APPEAL No.312 of 2026

DATED: 16.06.2026

Between:

M/s. BNR Infra and Leasing,
Rep., by its Managing Director, Mr. B. Narasimha Reddy,
Jubilee Hills, Hyderabad and 2 others.

... Appellants

AND

Union of India, rep., by its Finance Secretary,
New Delhi and 3 others.

... Respondents

JUDGMENT:

Mr. Avinash Desai, learned Senior Counsel represents Mr. V. Murali Manohar, learned counsel for the appellants.

Mr. Chithari Prabhakar, learned Standing Counsel for respondent No.2.

Ms. Pratusha Boppana, learned Counsel representing M/s. N Legal, Hyderabad, appears for respondent No.4.

2. The writ petition was filed challenging the classification of the appellants' account as fraud by the impugned declaration dated 02.11.2016 issued by respondent No.2 – Regional Manager, State Bank of India. The

learned writ Court declined to interfere in the matter by the impugned order dated 05.02.2026 *inter alia* holding as under:

> "5. Heard Sri S. Nagesh Reddy, learned counsel for petitioners and Smt. N.V.R. Rajya Lakshmi, learned Central Government Standing Counsel and Sri C. Prabhakar, learned Standing Counsel for Respondents 2 to 4.
>
> 6. Upon consideration of the rival pleadings, it is evident from the record that the loan was sanctioned in 2011, mortgage was created in 2011, the account was classified as NPA on 26.09.2015, SARFAESI proceedings were initiated in 2015–2016, and the declaration of fraud was made in 2016. The Debts Recovery Tribunal-II, Hyderabad, after considering the material, passed a decree on 05.07.2019 in OA No.2967 of 2017, recording categorical findings that the property documents submitted by petitioners were not genuine and that the conversion certificate and pahani records were fabricated. These findings have attained finality. The pendency of criminal proceedings pursuant to FIR No.RC0692019 and the charge sheet filed thereunder further underscores the seriousness of the allegations.
>
> 7. The contention of petitioners that declaration of fraud is vitiated for want of opportunity of hearing cannot be accepted in view of the regulatory framework prevailing at the relevant point of time. The RBI Master Directions on Frauds, which governed the field in 2016, did not mandate a pre-decisional hearing prior to classification of an account as fraud. Reliance placed on the judgment of the Hon'ble Supreme Court in **State Bank of India v. Rajesh Agarwal (2023 SCC OnLine SC 342)** is misplaced, as the said judgment was rendered much later on 27.03.2023 and does not operate retrospectively to unsettle actions taken in accordance with the prevailing directions in 2016. Moreover, petitioners were aware of the declaration of fraud and the consequential proceedings, yet chose not to challenge the same for several years.
>
> 8. The plea that One Time Settlement proposals were not considered does not dilute the gravity of the allegations of submission of forged and fabricated documents. OTS is a discretionary policy measure and does not confer a vested right, particularly in cases involving fraud. The bank has placed cogent material to demonstrate that declaration of fraud was based on objective verification, confirmation from revenue authorities, and due internal processes. In view of the admitted default, the findings recorded by the Debts Recovery Tribunal-II, Hyderabad, the material indicating fabrication of documents, initiation of criminal proceedings, and the inordinate delay in approaching this Court, this Court finds no arbitrariness or illegality in the action of Respondent No.2 in classifying the account of petitioners as fraud in 2016. The writ jurisdiction under Article 226 of the Constitution cannot be invoked to reopen concluded proceedings or to bypass statutory remedies, particularly when disputed questions of fact and allegations of fraud are involved. For all the aforesaid reasons, the writ petition lacks merit and is liable to be dismissed."

The appellants have preferred this appeal being aggrieved therefrom.

3. Learned Senior Counsel for the appellants has drawn the attention of this Court to paragraph Nos.78 and 79 of the judgment of the Apex Court rendered in the case of **State Bank of India v. Rajesh Agarwal**[1] and pleaded that the impugned action was vitiated for lack of any opportunity to explain the conclusions of the forensic audit report. The Apex Court in the aforesaid paragraphs and in the concluding paragraph No.81 had held the application of *audi alteram partem* rule to the clauses 8.9.4 and 8.9.5 of the master directions on fraud contained in the Reserve Bank of India (RBI) guidelines which govern the classification of accounts as fraud. He relies upon paragraph No.3 of the decision of the Apex Court in **Kanishk Sinha and another vs. State of West Bengal and another**[2] that when the Court has declared the law, the judgment will always be retrospective in nature unless otherwise specifically stated. As such, by application of law declared by the Apex Court in **Rajesh Agarwal (supra)**, non-compliance of the principles of natural justice should vitiate the classification of the account of the appellants as fraud by impugned declaration dated 02.11.2016. He has also sought to rely upon the decision of the Apex Court in **Priyanka Srivastava vs. State of Uttar Pradesh**[3] on the principle of prospective application.

[1] 2023 SCC OnLine SC 342
[2] 2025 SCC OnLine SC 443
[3] (2015) 6 SCC 287

4. Learned counsel for respondent No.4 has supported the impugned judgment. She has also referred to the chronology of facts and events which led to classification of the appellants' account as fraudulent under the RBI guidelines.

5. We have considered the submissions of the learned counsel for the parties.

6. Much argument has been made by the learned counsel for the appellants on the applicability of the law declared by the Apex Court in the case of **Rajesh Agarwal (supra)** retrospectively. However, since the judgment has not been made applicable prospectively also as observed in the case of **Kanishk Sinha (supra)**, the law interpreted by the Apex Court will always be retrospective in nature unless the judgment specifically states that the judgment will operate prospectively. The Apex Court however in the case of **Kanishk Sinha (supra)** also observed that the prospective operation of a judgment is normally done to avoid any unnecessary burden to persons or to avoid undue hardships to those who had bona fidely done something with the understanding of the law as it existed at the relevant point of time. It is done not to unsettle something which has long been settled as that would cause injustice to many. In view of this legal position, the question before this Court is whether the learned writ Court rightly declined its discretionary jurisdiction to interfere with the impugned action of the respondent Bank also taking into account the inordinate delay and laches on the part of the appellants in approaching the writ Court.

7. For proper appreciation, the law laid down in the case of **Rajesh Agarwal (supra)** as relied upon by the learned counsel for the appellants at paragraph Nos.78 and 79 and the concluding paragraph No.81 are extracted hereunder:

"78. Before concluding, we also want to address the argument by the borrowers that the requirement of passing a reasoned order must be read into the Master Directions on Frauds. The borrowers also relied on Jah Developers (supra) where it was held that a final decision of the Review Committee declaring the borrower as a 'wilful defaulter' must be made by a reasoned order. We agree with this contention of the borrowers because: (i) a reasoned order allows an aggrieved party to demonstrate that the reasons which persuaded the authority to pass an adverse order against the interests of the aggrieved party are extraneous or perverse; and (ii) the obligation to record reasons acts as a check on the arbitrary exercise of the powers. The reasons to be recorded need not be placed on the same pedestal as a judgment of a court. The reasons may be brief but they must comport with fairness by indicating a due application of mind.

79. In light of the legal position noted above, we hold that the rule of audi alteram partem ought to be read in Clauses 8.9.4 and 8.9.5 of the Master Directions on Fraud. Consistent with the principles of natural justice, the lender banks should provide an opportunity to a borrower by furnishing a copy of the audit reports and allow the borrower a reasonable opportunity to submit a representation before classifying the account as fraud. A reasoned order has to be issued on the objections addressed by the borrower. On perusal of the facts, it is indubitable that the lender banks did not provide an opportunity of hearing to the borrowers before classifying their accounts as fraud. Therefore, the impugned decision to classify the borrower account as fraud is vitiated by the failure to observe the rule of audi alteram partem. In the present batch of appeals, this Court passed an ad-interim order restraining the lender banks from taking any precipitate action against the borrowers for the time being. In pursuance of our aforesaid reasoning, we hold that the decision by the lender banks to classify the borrower accounts as fraud, is violative of the principles of natural justice. The banks would be at liberty to take fresh steps in accordance with this decision.

81. The conclusions are summarized below:

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

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

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

iv. Such a debarment Under Clause 8.12.1 of the Master Directions on Frauds is akin to blacklisting the borrowers for being untrustworthy and unworthy of credit by banks. This Court has consistently held that an opportunity of hearing ought to be provided before a person is blacklisted;

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

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

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

8. The observations at paragraph No.3 in case of **Kanishk Sinha (supra)** relied upon by the appellants are also extracted hereunder:

"3. .... "Now the law of prospective and retrospective operation is absolutely clear. Whereas a law made by the legislature is always prospective in nature unless it has been specifically stated in the statute itself about its retrospective operation, the reverse is true for the law which is laid down by a Constitutional Court, or law as it is interpretated by the Court. The judgment of the Court will always be retrospective in nature unless the judgment itself specifically states that the judgment will operate prospectively. The prospective operation of a judgment is normally done to avoid any unnecessary burden to persons or to avoid undue hardships to those who had bona fidely done something with the understanding of the law as it existed at the relevant point of time. Further, it is done not to unsettle something which has long been settled, as that would cause injustice to many."

9. In order to arrive at a considered decision, it is necessary to refer to certain relevant background facts. On 22.07.2011 that a cash credit facility was granted by the respondent-Bank to appellant No.1-company against mortgage of the Kismatpur

property in Ranga Reddy District. On 28.03.2013, the credit facilities were enhanced. Again on 17.11.2014, the Bank sanctioned an Asset Backed Loan of Rs.8 crores based on the mortgaged property. When the appellants failed to repay the loan, the loan account was classified as Non-Performing Asset (NPA) with outstanding dues of approximately Rs.8.20 crores on 26.09.2015. Notice under Section 13(2) of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (for short, 'SARFAESI Act') was issued on 20.09.2015 by the bank. On 14.12.2015, the Revenue Divisional Officer, Chevella, through letter informed that the conversion certificate dated 29.12.2008 relied upon by the appellants to show conversion of agricultural land into non-agricultural land was fake and did not bear the signature of the concerned Revenue Divisional Officer. On 01.01.2016, possession notice under Section 13(4) of the SARFAESI Act was issued. The respondent-Bank made verification of the mortgaged properties during SARFAESI proceedings and found that the conversion certificate produced by the appellants that the land was agricultural land was forged. The pahani records and link documents submitted by the appellants were fabricated. The second mortgaged property at Neredmet was found to be standing in the name of a third party under Document No.2142 of 1975. The title of the appellants over the collateral securities was doubtful and unenforceable. On 28.04.2016, the Deputy Collector and Tahsildar, Rajendranagar, informed the Bank that the pahani records submitted by the appellants were not issued by their office and were not genuine. Thereafter, on 29.10.2016, the Fraud Monitoring Department of the Bank declared the loan account as fraud. On 02.11.2016, the Bank formally classified the appellants' account as fraud by Fraud

Monitoring System. A case was lodged by the Bank before Central Bureau of Investigation (CBI) alleging submission of forged and fabricated documents with fraudulent availing of credit facilities on 03.12.2016. O.A.No.2967 of 2017 was instituted before the Debts Recovery Tribunal-II, Hyderabad, for recovery of Rs.10,38,80,942/- together with interest and costs. On 02.03.2019, CBI registered FIR.No.RC069 of 2019 against the appellants on the Bank's complaint. On 05.07.2019, the Debts Recovery Tribunal allowed the O.A. and passed recovery order in favour of the Bank after recording findings that the documents submitted by the appellants relating to the mortgaged properties were not genuine and the conversion certificate and the revenue records were fabricated. Appellants, in the meantime, submitted proposals for One Time Settlement, which were not accepted by the Bank. On 12.05.2023, Fraud Monitoring Department informed the appellants that under the RBI Master Directions on Frauds prevailing in 2016, the Bank was not required to provide a pre-decisional hearing or furnish fraud-classification proceedings. On the appellants' Right to Information application to the Bank on 15.05.2023, a detailed communication was issued on 15.09.2023 reiterating the reasons for fraud classification, specifically alleging submission of forged conversion certificate, fabricated pahani records and title documents, creation of mortgage over properties lacking valid title, intentional deception to secure loan facilities and inflated valuation reports and resultant inability of the Bank to enforce the mortgage due to defective title and third-party possession. Thereafter, in the year 2024 only the appellants preferred the writ petition seeking quashing of the impugned declaration dated 02.11.2016 classifying the appellants' account as fraud.

10. The learned writ Court held that there was inordinate delay in approaching the Court to invoke writ jurisdiction under Article 226 of the Constitution of India, to reopen the proceedings or to bypass statutory remedies, when disputed questions of fact and allegations of fraud were involved. Therefore, the writ petition was dismissed.

11. Having considered the background facts and circumstances above that the classification of the account of the appellants as fraud was made as far back as on 02.11.2016 and proceedings thereafter show that though the appellants were suffering both criminal proceedings by CBI and recovery proceedings through Debts Recovery Tribunal, the conduct of the appellants in approaching this Court only in 2024 defies any reasonable explanation. In the case of **Rajesh Agarwal (supra)**, the aggrieved companies had approached the High Court against the declaration of their account as fraud without any inordinate delay. The challenge thereafter travelled to the Supreme Court, which was decided on 27.03.2023. In the present case, the appellants' account was classified as fraud on 02.11.2016. Despite the intervening criminal and recovery proceedings, the appellants assailed the impugned order dated 02.11.2016 in the year 2024 only after the decision in the case of **Rajesh Agarwal (supra)** was rendered.

12. In these circumstances, the classification of the account of the appellants as fraud done as far back as in November, 2016, should not be allowed to be questioned in exercise of writ jurisdiction by this Court. The appellants are guilty of unexplained delay and laches. Therefore, we do not find any reason to interfere with the impugned order.

13. Accordingly, the instant Writ Appeal is dismissed. There shall be no order as to costs.

Miscellaneous applications, if any pending, shall stand closed.

SD/- A.V.S.PRASAD
DEPUTY REGISTRAR

//TRUE COPY//

SECTION OFFICER

To,

1. One CC to SRI. V MURALI MANOHAR Advocate [OPUC]
2. One CC to SRI. N BHUJANGA RAO, Deputy Solicitor General of India [OPUC]
3. One CC to M/s. N. LEGAL, Advocate [OPUC]
4. Two CD Copies

BM

TKS
Pmg.

HIGH COURT

DATED: 16/06/2026

JUDGMENT

WA.No.312 of 2026

HIGH COURT FOR THE STATE OF TELANGANA
2 8 JUL 2026
★ DESPATCHED ★

DISMISSING THE WRIT APPEAL WITHOUT COSTS

6 PMG
25/7/26