

A dispute arising from a purely contractual relationship, governed by the terms of an agreement, cannot be converted into a criminal proceeding for cheating or criminal breach of trust where the essential ingredients of these offences are absent

The **Calcutta High Court** in the case of **Tata Capital Finance Ltd vs State of West Bengal [CRR 2354 of 2023]** dated **February 13, 2026**, has held that a dispute arising from a purely contractual relationship, governed by the terms of an agreement, cannot be converted into a criminal proceeding for cheating or criminal breach of trust where the essential ingredients of these offences are absent. The Court clarified that specifically, there must be evidence of dishonest intention from the inception for cheating and a clear entrustment of property for criminal breach of trust.

Furthermore, the Court clarified that an alleged violation of regulatory guidelines (like those from the RBI) does not automatically give rise to penal consequences under the Indian Penal Code for a matter rooted in a contract. The Court also reaffirmed the legal principle that charges for cheating (Section 420 IPC) and criminal breach of trust (Section 406 IPC) cannot be sustained simultaneously for the same transaction. The Court therefore allowed the criminal revisional application and quashed the proceedings against the petitioners.

The Court observed that the subject matter of the complaint arose purely out of an alleged violation of the terms and conditions of the loan agreements between the parties. It noted that the relationship was governed by these agreements, which also contained an arbitration clause that the complainant did not invoke. Thus, the Court affirmed the principle that a contractual dispute or a mere breach of contract per se should not lead to the initiation of a criminal proceeding.

The Court held that charges under Sections 406 and 420 of the IPC cannot be maintained simultaneously in the same breath, and explained that if a complainant alleges an offence of criminal breach of trust, it cannot be said in the same breath that the accused also committed the offence of cheating. The two offences are distinct and cannot co-exist simultaneously for the same transaction.

Further, the Court stated that the distinction between a mere breach of contract and the offence of cheating is a fine one, with the decisive factor being the accused's intention at the time of inducement. To constitute cheating, there must be a fraudulent or designed intention from the very beginning of the contract's formation. While subsequent conduct can be a factor in inferring this initial intention, it cannot be the sole test. The Court found that the complaint failed to satisfy these basic ingredients.

For an offence of criminal breach of trust, the Court clarified that mere proof of entrustment is sufficient, where an offender is lawfully entrusted with property and then dishonestly misappropriates it. Thus, in the present case, the Court concluded that there was no entrustment of money upon the petitioners, who were merely the loan sanctioning authority. The entrustment was pursuant to the loan agreement against the property, and the onus for the same never shifted to the petitioner company.

The Court emphasised that the police report and the Magistrate's order were based on an alleged violation of RBI/NHB guidelines prohibiting foreclosure charges. However, the loan agreements were executed in November 2013 and November 2014, which was prior to the notification in question.

More importantly, the Court held that a violation of RBI guidelines per se cannot attract penal action under the IPC, as the core allegation was about an excess payment during foreclosure which was governed by the terms of the agreement. The Court also pointed out that the investigating officer's report about the violation of rules should have been verified with available materials, which was not done.