Repayment of dues or conclusion of a one-time settlement does not erase fraudulent conduct by the borrower that jeopardised the bank's security. A bank's decision to settle the debt does not prevent it from continuing proceedings under the RBI Master Circular dated 1 July 2016, if the settlement is silent on such proceedings

The **Calcutta High Court** in the case of **Bhanu Properties vs Reserve Bank of India [APOT/299/2025] dated May 18, 2026**, has held that, although principles of natural justice apply to proceedings for classifying a borrower's account as fraudulent under the RBI Master Circular, such proceedings are not vitiated merely because one audit report was allegedly not supplied, unless the borrower demonstrates actual prejudice. Where the borrower had access to the underlying stock statements, had already received the majority of the forensic audit reports, and chose not to respond to the show-cause notice, the plea of breach of natural justice fails.

The Court therefore held that repayment of dues or conclusion of a one-time settlement does not eclipse or erase fraudulent conduct by the borrower that jeopardised the bank's security. A bank's decision to settle the debt does not prevent it from continuing proceedings under the RBI Master Circular dated 1 July 2016, particularly where the settlement is silent on such proceedings and the object of the circular is deterrence as well as protection of the banking system.

The Court observed at the outset that it was difficult to understand how a writ court could interfere with proceedings initiated by the bank under the SARFAESI Act, particularly when settled law requires a challenge to SARFAESI measures to be made in accordance with Section 17 of the Act. However, the Court proceeded on the basis of the factual record before it and focused on the fraud-classification challenge under the RBI Master Circular.

On natural justice, the Court accepted that the principles of natural justice apply to a quasi-judicial proceeding even where not expressly provided. However, it noted that the appellants were found to have submitted misleading stock audit reports from 2018 till 30 April 2022, and that the suppression and misrepresentation in those stock reports could have seriously exposed the bank to the risk of being left without security. It held that this itself constituted the fraudulent conduct alleged, even assuming that the last stock audit report dated 30 March 2023 had not been supplied.

The Court further observed that the stock statements analysed by the forensic auditors were, at all material times, in the appellants' possession. It considered significant that the appellants neither challenged the initial show-cause on merits nor formally sought the forensic stock audit reports from the respondents, and indeed chose not to reply to the show-cause notice at all. In that backdrop, the Court held that the appellants could not demonstrate any real prejudice from the alleged non-supply of one forensic stock audit report, especially when they had already received most of the reports for the period from March 2018 to 30 April 2022.

On the effect of repayment and the OTS, the Court acknowledged that declaration as a fraudster under the RBI Master Circular has serious civil and commercial consequences, including debarment from availing loans from banks and financial institutions for five years. Even so, it held that repayment of the bank's dues does not extinguish the borrower's fraudulent conduct where the borrower had exposed the bank to financial risk by jeopardising its security.

The Court emphasised that the OTS was silent regarding the fraud-classification proceedings and that settlement of dues cannot absolve the borrower from the consequences under the RBI Master Circular, whose purpose includes deterrence against borrowers misleading banks into lending or continuing to lend.