

Delhi High Court upholds quashing of wilful defaulter tag of Ratul Puri and Nita Puri

The Court reiterated wilful defaulter that label amounts to “civil death” and demanded strict compliance with RBI Master Circular. Ratul Puri

The Delhi High Court on Friday upheld Single Judge orders that had set aside the classification of Ratul Puri, former director of Moser Baer India Ltd (MBIL) and its subsidiary Moser Baer Solar Ltd (MBSL), and his mother Nita Puri as wilful defaulters under the Reserve Bank of India (RBI) Master Circular [Bank of Baroda Vs Ratul Puri].

A Division Bench of Justices C Hari Shankar and Ajay Diggpaul dismissed appeals filed in the matter by Bank of Baroda (BoB) and Punjab National Bank (PNB).

It held that the 'wilful defaulter' declarations were legally unsustainable since the banks had failed to establish, through verified and objective material, that the transactions in question involved borrowed funds that had been intentionally, deliberately, and calculatedly diverted or siphoned off.

“If the funds were not ‘borrowed funds’, there can, ipso facto, be no allegation of wilful default,” the Court said, emphasising that this requirement flowed directly from Clauses 2.1.3, 2.2.1 and 2.2.2 of the RBI's Master Circular.

MBIL and MBSL had availed credit facilities from a consortium of banks, including BoB and PNB. Following financial distress, both companies were admitted to the Corporate Debt Restructuring (CDR) mechanism in 2012–13 and placed in Category B under the CDR Master Circular — a classification applicable to entities affected by external factors but not found to have diverted funds. The Final Restructuring Schemes (FRS) prepared by the lenders recorded that investments in subsidiaries such as Helios Photo Voltaic Ltd (HPVL) had been funded from internal accruals, private equity infusions, and foreign currency convertible bonds, and were considered strategic. No forensic audit was ordered at the time, and the restructuring packages were approved. Years later, after insolvency proceedings were initiated against the companies, BoB and PNB relied on forensic audit reports (FARs) prepared by GSA & Associates (for MBIL) and Haribhakti & Co LLP (for MBSL) to issue show-cause notices proposing to classify Ratul Puri and Nita Puri as wilful defaulters.

The Identification Committees of the banks proceeded to confirm the classification, and the Review Committees upheld those decisions.

A Single Judge Bench of the Delhi High Court quashed the declarations, holding that the essential ingredients of wilful default under the RBI's Master Circular were not met. The banks then filed the present appeals before the Division Bench. In its judgment, the Division Bench noted that the lenders' own FRS documents acknowledged that the investments in subsidiaries were funded from "substantial cash surplus" and not from bank borrowings. The Court added that such facts that were known and accepted during the CDR process cannot suddenly be regarded as wilful default at a later stage, without any additional material justifying such a change in stance.

The Court also found that the only basis for initiating the proceedings was the FARs, which themselves admitted that the source of funds for the investments had not been verified. The Court questioned whether such reports can be relied on to declare the Puris as wilful defaulters. "An FAR which is issued without being possessed of all the necessary factual material and statistical details is really worthy of little credibility, and cannot constitute the basis for proceeding against the borrower for declaring him a wilful defaulter," the Court said.

The Court also upheld the Single Judge's rejection of other grounds advanced by the banks, including interest-free deposits, lease arrangements between MBSL and MBIL, and trading transactions with HPVL. These, it held, were commercially justified, disclosed to lenders during the CDR process, and did not indicate any intentional, deliberate or calculated diversion of borrowed funds.

The Court underscored the serious civil and commercial consequences of a wilful defaulter label. "A declaration of wilful default, within the meaning of the Master Circular, results in civil death," it said. It noted that such classification can lead to denial of future credit, exposure to criminal proceedings and reputational damage. "Every default is not a 'wilful default'; the misconduct must be intentional, deliberate and calculated," the Bench further stressed. It added that such decisions must be based on objective facts and circumstances of the case and the borrower's overall track record.

Finding no infirmity in the Single Judge's reasoning, the Division Bench dismissed all four appeals without costs. Advocates Kush Sharma, Nishchaya Nigam and Vagmi Singh appeared for Bank of Baroda. Advocates Sanjay Bajaj, Shivam Takkar and Sarthak Sehgal appeared for Punjab National Bank. Advocates Rajeev Goyal, Vaibhav Mishra, Anshul Mishra, Ekansh Mishra, Manu Krishnan, Devika Mohan and Vikram Choudhary appeared for Ratul Puri and Nita Puri.