Administrative Role Not Essential for Establishing Vicarious Liability in Cheque Bounce Cases

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The Supreme Court of India in a recent landmark judgement addressed the important aspect of the vicarious liability under Section 141 of the Negotiable Instruments Act, 1881. The judgment in *HDFC Bank Limited v. State of Maharashtra and Another*[1] reasserts that the specific administrative functions need not be elaborated in complaints against directors for cheque dishonor cases under Section 138. The verdict is expected to guide lower courts and provide clarity to litigants on what constitutes sufficient pleading in cases involving cheque bounce offences by the companies.

Before adverting to the judgment, it is important to understand the facts of the matter in hand. The facts of the case were such that the HDFC Bank Limited provided a Revolving Loan Facility as Inventory Funding for the working capital requirements to M/s R Square Shri Sai Baba Abhikaran Private Limited, a company managed by Mrs. Ranjana Sharma, her daughter Ms. Rachana Sharma, and Mr. Rakesh Rajpal. The Loan Facility was backed by various security and loan documents, including board resolutions authorizing Mrs. Ranjana Sharma to negotiate and execute relevant documents on behalf of the company.

When the Company defaulted and the account was declared a Non-Performing Asset (NPA) on 27.03.2018, the Bank deposited a cheque issued by the Company amounting to Rs. 6,02,04,217/- (Rupees Six Crores Two Lakhs Four Thousand Two Hundred and Seventeen only). The aforementioned cheque was returned dishonored with the remarks “account blocked”. A Legal Notice was issued by the Bank to the Company and its directors, however, the same was returned back as “unclaimed”. Consequently, the Bank filed a criminal complaint under Sections 138 and 141 of the Negotiable Instruments Act, 1881 against the Company and its Directors. The trial court took cognizance, but the Hon’ble High Court at Bombay quashed the complaint against Mrs. Ranjana Sharma, citing a lack of adequate averments establishing her vicarious liability.

The central issue before the Supreme Court was whether the Hon’ble High Court was justified in quashing the complaint insofar as Mrs. Ranjana Sharma was concerned on the ground that necessary averments were lacking. After analyzing the scenario, Hon’ble Mr. Justice K.V. Viswanathan, writing for the Bench, emphasized that the requirement under Section 141 is that the person must be in charge of and responsible to the Company for the conduct of the company’s business at the time of the occurrence of the offence.

The Hon’ble Court on perusal of the complaint and the documents found that these responsibilities unequivocally established Mrs. Ranjana’s role in managing the company’s affairs. Additionally, it observed that the complaint contained the critical averment that she was responsible for the day-to-day affairs, management, and working of the company. This was deemed sufficient to proceed to trial.

The Hon’ble Court while dealing with the present matter revisited its decision in the case titled as *S.M.S. Pharmaceuticals Ltd. v. Neeta Bhalla*[2] and clarified that a clear averment that the accused was in charge of and responsible for the conduct of business is essential, however, the use of precise statutory words is not mandatory if the substance of the complaint meets the legal requirements. The Directors involved in negotiation, execution of documents, and loan transactions are presumed to be responsible unless proven otherwise. Further the Hon’ble Court referred to some of its earlier judgments, emphasizing that the complainant cannot be expected

[1] (2025) INSC 759

[2] AIR 2005 SC 3512

to know the inner administrative details of a company. Directors must explain their non-involvement as a defense during trial, not at the stage of quashing.

The Hon'ble Supreme Court thus held that the Hon'ble High Court erred in quashing the complaint against Mrs. Ranjana Sharma. It restored the order of the Magistrate and directed continuation of the trial. The Court concluded that the complaint, when read as a whole, sufficiently established the director's vicarious liability and did not warrant premature termination of proceedings. The Hon'ble Supreme Court also apprehended that the repetition of the exact words of the Section in the same order, is not the mandate of the law. According to the Hon'ble Bench, what is mandated is that the complaint should spell out that the accused sought to be arrayed falls within the parameters of the Section 141(1) of the Negotiable Instruments Act, 1881, only then could vicarious liability be inferred against the said accused, so as to procced to trial.

This decision of the Apex Court strengthens the legal framework governing the matters pertaining to cheque dishonor by clarifying what constitutes sufficient pleading against the directors of a Company. It ensures that complaints will not be dismissed on hyper technical grounds and reiterates that substance prevails over form. This judgment serves as a clear precedent in interpreting vicarious liability under the Negotiable Instruments Act, 1881. Thus, by restoring criminal proceedings against a director actively involved in the company's financial decisions, the Supreme Court has sent a strong message that accountability in commercial transactions is paramount. This decision will play a pivotal role in future cheque bounce cases where directors seek to evade liability by disputing the administrative roles administered by them.

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