IN THE HIGH COURT AT CALCUTTA
(Constitutional Writ Jurisdiction)
APPELLATE SIDE

Present:
The Hon'ble Justice Krishna Rao

W.P.A. No. 13553 of 2026

Natraj Rice Mill Private Limited & Ors.
Vs.
Bank of India & Ors.

Mr. Nirmalya Dasgupta
Mr. Jitendra Patnaik
....For the petitioners.

Mr. Sourojit Dasgupta
Ms. Rupal Singh
Ms. Anukriti Poddar
Mr. Shivam Chatturvedi
Mr. Ashok Kumar Singh
....For the respondent no.1.

Mr. Abhishek Sikdar

....For the respondent no.2.

Hearing Concluded On : 09.07.2026

Judgment Delivered On : 12.08.2026

Judgment Uploaded On : 12.08.2026

Krishna Rao, J.:

1. The petitioners have filed the present writ petition challenging the Forensic Audit Report dated 22nd November, 2025, Show Cause Notice Dated 26th November, 2025 and the impugned order dated 9th March, 2026 wherein the bank has classified the account of the petitioner no.1 as fraud.

2. Mr. Nirmalya Dasgupta, Learned Advocate appearing for the petitioners submits that before taking over the entire management and control of the company, the petitioner nos. 2 and 3 have been appointed as directors and the same was duly informed to the bank and the bank has accepted such change in the management and control of the company, and agreed to accept personal guarantees of the petitioner nos. 2 and 3. He submits that instead of honouring, the terms of consent, issued a recall notice dated 25th June, 2025, demanding a sum of Rs. 20,00,19,764/- and issued notice under Section 13(2) of the SARFAESI Act by classifying the account of the petitioner no. 1 Company as NPA on 24th June, 2025.

3. Mr. Dasgupta submits that classification of the account as NPA was made in gross violation of the RBI guidelines as applicable for a registered MSME Company. He submits that in gross-violation of the mandatory RBI guidelines, the respondent bank has appointed M/s. N H Agarwal and Associates, the respondent no. 2 herein to conduct forensic audit of the company. He submits that the findings of the forensic audit report is inconclusive, incorrect and incomplete which cannot be relied upon.

4. Mr. Dasgupta submits that on the basis of the forensic audit report, the bank has issued a show cause notice to the petitioners on 26th November, 2025. In the show cause notice, the respondent bank has provided time to give reply to the said notice within 15 days instead of 21 days. The petitioners have submitted reply to the show cause notice on 11th December, 2025. He submits that without considering the reply submitted by the petitioners, the bank by a communication dated 9th March, 2026, classified the account of the petitioner no.1 as fraud.

5. Mr. Dasgupta submits that the bank has relied upon the forensic audit report but has not made their own assessment. He submits that the bank has not provided any opportunity of hearing to the petitioners to respond to the assessment/ observations made by the forensic auditor. He submits that the respondent no.1 bank has failed to comply with the mandatory requirements/ guidelines of the Reserve Bank of India dated 15th July, 2024. He submits that the appointment of forensic auditor which is also in violation of the RBI Directions dated 15th July, 2024. He submits that there is no question of diversion or siphoning off funds as alleged in the forensic audit report considering that the value of the assets are more than the loan amount due and outstanding as on the date of the account was classified as NPA.

6. Mr. Dasgupta submits that the forensic report has been deliberately prepared at the behest of the respondent no.1 bank to harass the petitioners and other noticees. Mr. Dasgupta has relied upon the judgment in the case of ***State Bank of India and Others Vs. Rajesh Agarwal and Others*** reported in ***(2023) 6 SCC 1*** and submits that under the Master Directions on Frauds as well as the nature of the procedure adopted, it is reasonably practicable for the banks to provide an adequate opportunity of a hearing to the borrowers before classifying their accounts as fraud.

7. Mr. Dasgupta has relied upon the judgment in the case of ***State Bank of India vs. Amit Iron Private Limited and Others*** reported in ***2026 SCC OnLine SC 538*** and submits that in the Master Directions, 2024, strikes a fair balance between promptitude and fairness and the procedure is intended to imbue in the process an element of fairness and attempts to thwart miscarriage of justice.

8. Mr. Sourojit Dasgupta, Learned Advocate representing the respondent bank submits that the bank has conducted Forensic Audit Report through M/s. N H Agrawal and Associates, Chartered Accountants for conducting forensic audit of the petitioners' account maintained by the respondent bank. He submits that the respondent no.2 on completion of audit submitted forensic audit report with the conclusion that the petitioners have diverted funds fraudulently which resulted in fraud.

9. Mr. Sourojit Dasgupta submits that on receipt of forensic audit report, the bank has issued show cause notice and also supplied with the forensic audit report to the petitioners with the request to submit its reply within 15 days from the date of receipt of the notice why the account of the petitioners shall not be classified as fraud.

10. Mr. Sourojit Dasgupta submits that the petitioners have submitted its reply to the show cause notice and after considering the reply submitted by the petitioners, the bank finds that the reply filed by the petitioners, is not satisfactory and the petitioners diverted/ siphoned off funds utilizing the funds for the purposes other than for which it was granted and caused wrongful loss to the bank and wrongful gain to the petitioners with the intention to defraud the bank causing loss to the public money and accordingly, the account of the petitioner no.1 is classified as fraud.

11. Mr. Sourojit Dasgupta submits that the bank has acted in accordance with the Master Directions issued by the Reserve Bank of India dated 15th July, 2024. He submits that the petitioners were given an opportunity but the petitioners failed to submit any contrary documents to the forensic audit report on the basis of which show cause notices were issued to the petitioners and the petitioners have submitted their reply.

12. Mr. Abhishek Sikdar, Learned Advocate representing the respondent no.2 submits that the bank has appointed the respondent no.2 to undertake the Forensic Audit of the petitioners' account maintained with the respondent bank. He submits that the bank has provided audited financial statements from FY 2013 to FY 2024-2025, bank statements, list of major debtors and creditors, electricity bills and latest stock inspection report conducted by the bank. He submits that after considering the documents supplied by the bank, the respondent no.2 conducted forensic audit and finds that the significant transactions seen in bank statements but the same is not reflected or disclosed in the financial statements, while reconciling trade receivables extracted from stock statement available as on 30th March, 2024, they noticed huge difference of Rs. 4.14 Crores which remain un-reconciled. All directors left the organization just before the account get NPA without any prior intimation to the bank which raises the question of their integrity and involvement in such fraudulent transactions.

13. Mr. Sikdar submits that on completion of forensic audit of the account of the petitioner no. 1, the forensic audit report was submitted to the bank with the conclusion that the diversion of funds resulting in fraud.

14. Heard the Learned Counsel for the respective parties, perused the materials of record and the judgments relied by the petitioners. The petitioners have raised two issues. No. 1 is that the forensic audit report is incomplete, incorrect and inconclusive but the bank has passed the impugned order declaring the account of the petitioner no.1 as fraud on the basis of inconclusive report.

15. As per audit report, the respondent no.2 conducted audit of the account of the petitioner no. 1 on the request of the bank for the Financial Year 1st April, 2013 to 31st March, 2025 i.e. 12 years. The bank has provided the following details to the respondent no.2:

"1) Audited Financial Statements from 01.04.2013 to 2018-19 and from 01.04.2021 to 31.03.2024.

2) Bank Statements

Account Number	***Bank Name***	***Period of Statement***
499565410000004	*Bank of India, Clubside*	*09-05-2013 to 09-02-2023*
499530110000016	*Bank of India, Clubside*	*22-07-2018 to 26-06-2025*
490265610000007	*Bank of India, Clubside*	*01-07-2020 to 09-02-2023*
490265610000008	*Bank of India, Clubside*	*01-07-2020 to 09-02-2023*
490265610000009	*Bank of India, Clubside*	*01-07-2020 to 09-02-2023*
490270310000182	*Bank of India, Clubside*	*01-11-2021 to 03-01-2022*
499530110000019	*Bank of India, Clubside*	*21-01-2020 to 31-03-2023*

3) Loan Sanction Letters from Bank of India dated 01.08.2024.
2) Stock Audit Report as on 07.12.2024.
3) Stock Statement as on 22.02.2023, 28.02.2024, 30.03.2024, 28.03.2025.
6) Inspection Report dated 21.05.2025."

16. In Forensic Audit Report at para 1.3(A) Discussions/Interviews are recorded which reads as follows:

> *"**1.3 Audit Methodology***
> ***A. Discussions/Interviews***
>
> *The Audit Team has not yet visited the Bank of India Club side Branch however they obtained the financial statements, Bank Statements and sanction letter from the branch and clarify queries to the extent possible over call and via email. We have also communicated with the officials of the company. Audit Team has made visit to the companies registered office in West Bengal and*

> *found that office is closed, it might be because of Durga Puja in Kolkata. As per verbal discussion with branch stock worth Rs 1.6 Cr found and for this we have obtained latest stock Inspection report conducted by branch.”*

From the said discussion, it is clear that the audit team of the respondent no. 1 has not met with the petitioners and the same is also admitted by the respondent no.2 at Point 1.4(10) of the forensic audit report stating that *“No visit and Interaction with Directors and any officer of the company is done”.*

17. The petitioners have submitted their reply to the show cause notice issued by the bank in terms of the forensic audit report and the report is served to the petitioners. In reply, the petitioners have not submitted any documents or details of accounts to show that the auditors have not considered the said details of the account. It is also not the case of the petitioners that the petitioners could not get an opportunity to disclose their account which the auditor has not considered while submitting forensic audit report.

18. The petitioners have raised the 2nd issue that the respondent bank has violated the Master Directions dated 15th July, 2024, by not following the Red Flag Procedure. In the show cause notice in paragraph 2 (2), it is the specific allegation that:

2.	*For nearly seven years (FY15 to FY22), the company’s receivables were remarkably stable, averaging around Rs. 5.5 Crores. However, in FY 2022-23, the receivables more than doubled to Rs. 11.73 Crores. This is a massive anomaly. In FY23, the Revenues from Operations grew by about 8%*

	(from Rs. 95.8 Cr to Rs. 103.2 Cr), but receivables grew by 116%. This is a major disconnect and a significant red flag. It indicates that the company's ability to collect money from its customers collapsed dramatically in that one year.

In reply to the said allegation, the petitioners have submitted their reply on 11th December, 2025, which reads as follows:

> *"**4.** With reference to paragraph 2(2) of show cause notice it is denied and disputed all such allegations, observations, findings, conclusions and state that due to pandemic due to COVID-19 the receivables increased as the debtors mainly who are engaged in the agro business could not make payment. The company has taken necessary steps for recovery but of no avail. The increase in the receivables cannot be treated as massive anomaly as alleged or at all. It is once again stated that revenue from operations cannot be and should not be a yard stick to arrive at any conclusion with respect to growth/increase in receivables. It is denied and disputed that there is any major disconnect or significant red flag. It is also denied and disputed that the same indicates that the company's ability to collect money from its customers collapsed dramatically in that one year. It is once again stated that the economics of the entire world collapsed due to COVID-19 which caused the main set-back for recovery of any receivable by any company which needs no justification."*

The petitioners have not taken any stand in the reply to the show cause notice that the respondent bank has not followed the Red Flag Procedure.

19. Learned Counsel for the respondent no.2 has submitted an email dated 17th November, 2025, addressed to the petitioner no. 1 wherein the respondent no. 2 has informed the petitioners that the bank has appointed the respondent no.2 for conducting forensic audit and requested to provide the following documents:

> ***a)*** *List of major Debtors.*
>
> ***b)*** *List of major Creditors*
>
> ***c)*** *List of Borrowers*
>
> ***d)*** *Electricity Bill*
>
> ***e)*** *PF and ESIC Details."*

The petitioners have not submitted the said documents to the respondent no.2 or requested for any extension of time to produce with the said documents. It is also not the case of the petitioners in their show cause reply that the petitioners could not get an opportunity to disclose their documents.

20. The judgment relied by the petitioners in the case of ***Rajesh Agarwal (supra),*** the Hon'ble Supreme Court wherein it is held that :

> *"**75.** As mentioned above, Clause 8.9.6 of the Master Directions on Frauds contemplates that the procedure for the classification of an account as fraud has to be completed within six months. The procedure adopted under the Master Directions on Frauds provides enough time to the banks to deliberate before classifying an account as fraud. During this interval, the banks can serve a notice to the borrowers, and give them an opportunity to submit their reply and representation regarding the findings of the forensic audit report. Given the wide time-frames contemplated under the Master Directions on Frauds as well as the nature of the procedure adopted, it is reasonably practicable for banks to provide an adequate opportunity of a hearing to the borrowers before classifying their account as fraud."*

In the present case, the bank has declared the account of petitioner as NPA on 24th June, 2025 with an outstanding amount of Rs. 19.30 crores. Thereafter on 5th August, 2025, the bank has appointed the respondent no.2 to conduct forensic audit report of the account of the petitioner no. 1 company. The bank finds that in the financial years 2022-2023, the receivables more than doubled to 11.73 crores which was massive anomaly. In the Financial Year 2023, the revenue from operations grew up by 8% but receivables grew by 116%, which was a major disconnect and a significant red flag which indicates that the company's ability to collect money from its customers collapsed dramatically in that one year. In the forensic audit report conducted by the respondent no.2 finds that the petitioner company diverted funds which resulted in fraud.

21. The judgment relied by the petitioner in the case of ***Amit Iron (supra),*** the Hon'ble Supreme Court held that:

> ***"109.*** *Considerable arguments were advanced on how different High Courts have ordered the grant of personal hearing and banks have not appealed against the same. We are here concerned with interpreting the Circulars and laying down the correct legal position. Our interpretation cannot depend on conduct of banks in individual cases. Similarly, the argument that on facts in the present two cases banks have taken considerable time to initiate proceedings and they could have granted personal hearing also lacks merit, for stray instances cannot form the foundation for interpreting the legal position."*

The petitioners after receipt of show cause notice submitted their detailed reply and in the reply, the petitioners have not asked for any personal hearing. In the writ petition also there is no allegation that the petitioners are not given any opportunity of personal hearing.

22. This Court finds that the Auditor has conducted forensic audit report as per the request of the bank and the respondent no.2 has requested the petitioners to provide documents but the petitioners failed to produce any such documents. In the show cause reply also the petitioners have not disclosed any documents or account details which the respondents have not considered. This Court finds that the respondents have not committed any violation of Master Directions dated 15th July, 2024 or principles of natural justice.

23. **WPA No. 13553 of 2026** is **dismissed**.

Parties shall be entitled to act on the basis of a server copy of the Judgment placed on the official website of the Court.

Urgent Xerox certified photocopies of this judgment, if applied for, be given to the parties upon compliance of the requisite formalities.

(Krishna Rao, J.)