
(2013) 10 SC CK 0038

In the Supreme Court Of India

Case No : Criminal Appeal No's. 1692-1718 of 2013 (Arising out of Special Leave Petition (Criminal) No's. 2970-2996 of 2012) , Criminal Appeal No's. 1719-1725 of 2013 (Arising out of Special Leave Petition (Criminal) No's. 3100-3106 of 2012) , Criminal Appeal N

A.K. Singhanian

APPELLANT

Vs

Gujarat State Fertilizer Company Ltd. and Another

Gujarat State Fertilizer Company Ltd. Vs Vikram
Prakash and Another

RESPONDENT

Date of Decision : 17-10-2013

Acts Referred:

Criminal Procedure Code, 1973 (CrPC) — Section 482
Negotiable Instruments Act, 1881 (NI) — Section 138, 138(1), 141

Citation : (2013) 3 ACR 3030 : (2013) 11 AD 1 : AIR 2014 SC 71 : (2014) 1 ALD(Cri) 164 : (2014) 1 ALD(Cri) 317 : (2014) 84 ALLCC 1 : (2013) ALLMR(Cri) 4098 : (2013) 4 BC 623 : (2014) 1 BomCR 771 : (2014) 1 BomCR(Cri) 411 : (2014) 118 CLA 172 : (2014) 117 CLT 385 : (

Hon'ble Judges : Kurian Joseph, J;C.K. Prasad, J

Bench : Division Bench

Advocate : Ranjit Kumar, Kavita Wadia and Shashank Tripathi, M/s. Khaitan and Co, for the Appellant; Jayant Bhushan and Ashok Kr. Shrivastava, Nitish Massey, Sanjeev K. Kapoor, for M/s. Khaitan and Co., Shubhada Deshpande, for Hemantika Wahi, Kunal Verma, Vijeta Ohri and Arpita Seth, for the Respondent

Final Decision : Dismissed

Judgement

Chandramauli Kumar Prasad, J.—In all these special leave petitions common question of law and facts arise and, therefore, they have been heard together and are being disposed of by this common judgment.

2. Leave granted.

3. In all these cases we are concerned with accused A.K. Singhanian and Vikram Prakash. Several complaints were filed by Gujarat State Fertilizer Company against Esslon Synthetics Ltd., its Chairman, Managing Director and other

Directors including aforesaid A.K. Singhania and Vikram Prakash alleging commission of an offence u/s 138 of the Negotiable Instruments Act, hereinafter referred to as 'the Act'.

4. In Complaint Case No. 331 of 1996 the allegations which are relevant for the decision of these appeals read as follows:

3. The accused No. 14 is a Limited Company registered under the Companies Act, 1956 and are doing business of chemicals, synthetics etc. The accused No. 1 is Managing Director of accused company No. 14 and accused No. 2 is Deputy Managing Director, accused No. 3 is Chairman, accused No. 4 is Whole Time Director, accused No. 5 is Finance Director, accused No. 6 to 12 are the Directors and the accused No. 13 was Senior Manager (Finance) of the accused company No. 14 Esslon Synthetics Ltd.

4. All the business and financial affairs of the accused company No. 14 are decided, organized, administered by accused No. 1 being Managing Director and accused No. 2 being Deputy Managing Director, accused No. 3 Chairman, accused No. 4 Whole Time Director, accused No. 5 Finance Director with consultation of other Directors from accused Nos. 6 to 12 and accused No. 13 was Sr. Manager (Finance) of accused company No. 14. So accused Nos. 1 to 12 and accused No. 13 are also responsible for all the transactions and business affairs done on behalf of accused Company No. 14 and are responsible for all the financial affairs and administration of accused Company No. 14.

5. A.K. Singhania is the accused No. 7 and Vikram Prakash is accused No. 9 in this complaint.

6. In Complaint Case No. 1293 of 1996, the allegations with which we are concerned in these appeals read as follows:

4. All the business and financial affairs of the accused company No. 1 are decided, organized, administered by the accused No. 2 being Managing Director and accused No. 3 being Managing Director, accused No. 4 Chairman, accused No. 5 Whole Time Director, accused No. 6 Finance Director with consultation of other Directors from accused Nos. 7 to 13 and accused No. 14 was Sr. Manager (Finance) of accused No. 1. At the time the offence was committed, they were in-charge of and were responsible to the company for the conduct of the business of the accused company. Therefore, they are responsible for day to day affairs and all the transactions and business done on behalf of the accused Company No. 1 and they are also responsible for all the financial affairs and administration of accused company No. 1.

7. A.K. Singhania and Vikram Prakash have been arrayed as accused Nos. 8 and 10 in this complaint and in all other complaints, the allegations against A.K. Singhania are identical to what have been alleged in the Complaint Case No. 331 of 1996.

8. Taking into account the allegations made in the respective complaints, the

learned Magistrate took cognizance of the offence, issued process to the accused aforesaid besides other accused to face trial for commission of the offence u/s 138 of the Act.

9. Vikram Prakash, aggrieved by the order issuing summons to face trial u/s 138 of the Act in different complaints, filed applications u/s 482 of the Code of Criminal Procedure for quashing the order taking cognizance and issuing process. The applications filed by said Vikram Prakash were registered as Criminal Miscellaneous Application Nos. 13393-13399 of 2007. The High Court by its common order dated January 20, 2012 allowed all the applications and quashed his prosecution. While doing so, the High Court held as follows:

7...It is to be noted that as such there are general allegations and averments against the applicant in the complaints, however there are no specific allegations and averments in the complaint against the applicant with respect to transaction for which the cheques were issued by the accused No. 14 company. Under the circumstance, on the ground that applicant was non Executive Director of the Company on the board of the company, which is not disputed by the complainant, the applicant cannot be prosecuted for the offence under Sections 138 r/w 141 of the Negotiable Instruments Act and cannot be held vicariously liable for the offence alleged to have been committed by the accused No. 14 company. Under the circumstance, this Court is of opinion that this is a fit case to exercise the powers u/s 482 of the Code of Criminal Procedure and to quash and set aside the impugned complaint/criminal case qua applicant-original accused No. 9....

10. It is this common order which has been assailed by the Gujarat State Fertilizer Company Ltd. in the special leave petitions filed by it.

11. A.K. Singhania also, aggrieved by the order issuing process u/s 138 of the Act, filed separate applications for quashing the entire prosecution including the aforesaid order u/s 482 of the Code of Criminal Procedure. All the applications filed by A.K. Singhania were taken together by the High Court for consideration and by the impugned order the applications filed by him have been dismissed. While doing so, the High Court observed as follows:

9. As the paragraphs of the complaint reproduced in earlier part of decision specifically para 4 and subsequent paragraphs would reveal that the applicant in the capacity of Director was responsible for business affairs and he was in-charge of the Company. Not only that but nowhere it can be said that the applicant was non-Executive Director and even if it is so the said argument is in realm of defence to be decided by Court trying the case under the Negotiable Instruments Act. Since sufficient averments attracting of Section 138 of Negotiable Instrument Act are the foundation of the complaint and it is further averred that cheques were issued with mischievous, dishonest intention, knowingly and willingly to cheat the complainant company. Arguments canvassed by learned advocate for the applicant do not require any further deliberation in exercise of

powers u/s 482 of the Code since quashing the complaint would not secure end of justice but would result into miscarriage of justice....

12. A.K. Singhania, aggrieved by the aforesaid common order, has preferred these special leave petitions.

13. Leave granted.

14. We have heard Mr. Ranjit Kumar, learned Senior Counsel on behalf of the accused A.K. Singhania and Mr. Ashok Kr. Srivastava, learned Senior Counsel on behalf of Vikram Prakash whereas the complainant, Gujarat State Fertilizer Company Ltd. is represented by Mr. Jayant Bhushan, learned Senior Counsel. Mr. Ranjit Kumar appearing on behalf of the accused submits that necessary averments that at the time the offence was committed, the accused were in-charge of and responsible for the conduct of the business of the company have not been averred, which is sine qua non for proceeding against the Directors of the company. He has drawn our attention to the averments made in the complaints, which we have reproduced in the preceding paragraphs of this judgment and submits that mere assertion that these accused persons were the Directors of the company is not sufficient to make them liable u/s 141 of the Act. Mr. Jayant Bhushan however, submits that there is clear averment in the complaint that these accused persons were the Directors of the company and, in fact, in-charge of and responsible for the conduct of the business of the company and, hence, they were rightly summoned to face the trial. He points out that the judgment and order of the High Court quashing the prosecution of accused Vikram Prakash is under challenge in this batch of appeals and accused A.K. Singhania cannot take benefit of the said order and the fate of both the accused shall depend upon the decision in all these appeals. Mr. Ranjit Kumar submits that on same set of facts when the prosecution of the accused Vikram Prakash has been quashed, there does not seem any justification to decline the prayer of the accused A.K. Singhania.

15. In view of rival submissions, we proceed to consider the exact allegations made against the accused A.K. Singhania and accused Vikram Prakash. It is not in dispute that allegations against both the accused in different complaints are one and the same. In Complaint Case No. 331 of 1996, the allegation is that "all business and financial affairs of the accused company are decided, organized, administered by Accused Nos. 1 to 5". It has further been alleged that Accused Nos. 1 to 5 do so with consultation of other Directors namely, Accused Nos. 6 to 12. In view of aforesaid, according to the complainant, accused Nos. 1 to 13 are also responsible for all the transactions and business affairs, financial affairs and administration done on behalf of the accused company. It is relevant here to state that A.K. Singhania and Vikram Prakash are accused Nos. 7 and 9 in this complaint. The averments made in the complaint nowhere suggest that these two accused, at the time the offence was committed, were in-charge of and responsible for the conduct of the business of the company. According to the complainant itself, it was accused Nos. 1 to 5 who were taking decisions and the

allegation that in taking the decisions they used to consult these accused also will not mean that these two accused were at the time the offence was committed, were in-charge of and responsible for the conduct of business of the company. In complaint Case No. 1293 of 1996 and all other complaints with which we are concerned in the present appeals the allegation is that "all business and financial affairs of the accused company No. 1, are decided, organized, administered by accused Nos. 2 to 6 and in consultation of other directors i.e. from accused Nos. 7 to 13". It has further been averred that at the time the offence was committed "they were in-charge and responsible to the company for the conduct of the business" and, therefore, "they are responsible for day to day affairs and transaction, business and all financial affairs of the accused company." Mr. Ranjit Kumar submits that the aforesaid averments are not sufficient and from that it cannot be inferred that accused A.K. Singhania and accused Vikram Prakash have been alleged to be in-charge and responsible for the conduct of the business of the company at the time the offence was committed. He points out that A.K. Singhania is accused No. 8 whereas accused Vikram Prakash is accused No. 10 in these complaints. Mr. Jayant Bhushan, however, joins issue and submits that the substance of the accusation clearly indicates that the two accused were in-charge and responsible for the conduct of the business of the company at the time of the offence.

16. We have perused the complaints and, in fact, the relevant portions of the allegations have been reproduced in the foregoing paragraphs of the judgment. From that it is difficult to infer that there is any averment that these two accused were in-charge of and responsible for the conduct of the business of the company at the time the offence was committed. The allegations in the complaints in sum and substance mean that business and financial affairs of the company used to be decided, organized and administered by accused Nos. 2 to 6 and while doing so, other Directors including the two accused herein were consulted. The inference drawn by the complainant on that basis that these two accused, therefore, are in-charge and responsible to the company for the conduct of its business, is absolutely misconceived. We are, therefore, of the opinion that essential averment in the complaints is lacking.

17. In case of offence by company for dishonour of cheque, the culpability of the Directors has to be decided with reference to Section 141 of the Act, same reads as follows:

141. Offences by companies.-(1) If the person committing an offence u/s 138 is a company, every person who, at the time the offence was committed, was in charge of, and was responsible to the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly:

Provided that nothing contained in this Sub-section shall render any person liable to punishment if he proves that the offence was committed without his knowledge, or that he had exercised all due diligence to prevent the commission

of such offence:

Provided further that where a person is nominated as a Director of a company by virtue of his holding any office or employment in the Central Government or State Government or a financial corporation owned or controlled by the Central Government or the State Government, as the case may be, he shall not be liable for prosecution under this Chapter.

(2) Notwithstanding anything contained in Sub-section (1), where any offence under this Act has been committed by a company and it is proved that the offence has been committed with the consent or connivance of, or is attributable to, any neglect on the part of, any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall also be deemed to be guilty of that offence and shall be liable to be proceeded against and punished accordingly.

Explanation.- For the purposes of this section,-

(a) "company" means any body corporate and includes a firm or other association of individuals; and

(b) "director", in relation to a firm, means a partner in the firm.

18. From a plain reading of the aforesaid provision it is evident that every person who at the time the offence was committed is in charge of and responsible to the Company shall be deemed to be guilty of the offence u/s 138 of the Act. In the face of it, will it be necessary to specifically state in the complaint that the person accused was in charge of and responsible for the conduct of the business of the Company? In our opinion, in the case of offence by Company, to bring its Directors within the mischief of Section 138 of the Act, it shall be necessary to allege that they were in charge of and responsible to the conduct of the business of the Company. It is necessary ingredient which would be sufficient to proceed against such Directors. However, we may add that as no particular form is prescribed, it may not be necessary to reproduce the words of the section. If reading of the complaint shows and substance of accusation discloses necessary averments, that would be sufficient to proceed against such of the Directors and no particular form is necessary. However, it may not be necessary to allege and prove that, in fact, such of the Directors have any specific role in respect of the transaction leading to issuance of cheque. Section 141 of the Act makes the Directors in charge and responsible to Company "for the conduct of the business of the Company" within the mischief of Section 138 of the Act and not particular business for which the cheque was issued. We cannot read more than what has been mandated in Section 141 of the Act.

19. A large number of authorities of this Court have been cited by the counsel representing the party to bring home their point. We deem it inexpedient to refer to all of them. Suffice it to say that this question has been answered eloquently by a three-Judge Bench decision of this Court in the case of S.M.S.

Pharmaceuticals Ltd. Vs. Neeta Bhalla and Another, in the following words:

19. In view of the above discussion, or answers to the questions posed in the reference are as under:

(a) It is necessary to specifically aver in a complaint u/s 141 that at the time the offence was committed, the person accused was in-charge of, and responsible for the conduct of business of the company. This averment is an essential requirement of Section 141 and has to be made in a complaint. Without this averment being made in a complaint, the requirements of Section 141 cannot be said to be satisfied.

20. This Court in the case of National Small Industries Corp. Ltd. Vs. Harmeet Singh Paintal and Another, after reviewing all its earlier judgments summarized the legal position as follows:

39. From the above discussion, the following principles emerge:

(i) The primary responsibility is on the complainant to make specific averments as are required under the law in the complaint so as to make the accused vicariously liable. For fastening the criminal liability, there is no presumption that every Director knows about the transaction.

(ii) Section 141 does not make all the Directors liable for the offence. The criminal liability can be fastened only on those who, at the time of the commission of the offence, were in charge of and were responsible for the conduct of the business of the company.

(iii) Vicarious liability can be inferred against a company registered or incorporated under the Companies Act, 1956 only if the requisite statements, which are required to be averred in the complaint/petition, are made so as to make the accused therein vicariously liable for offence committed by the company along with averments in the petition containing that the accused were in charge of and responsible for the business of the company and by virtue of their position they are liable to be proceeded with.

(iv) Vicarious liability on the part of a person must be pleaded and proved and not inferred.

(v) If the accused is a Managing Director or a Joint Managing Director then it is not necessary to make specific averment in the complaint and by virtue of their position they are liable to be proceeded with.

(vi) If the accused is a Director or an officer of a company who signed the cheques on behalf of the company then also it is not necessary to make specific averment in the complaint.

(vii) The person sought to be made liable should be in charge of and responsible for the conduct of the business of the company at the relevant time. This has to be averred as a fact as there is no deemed liability of a Director in such cases.

21. In Harshendra Kumar D. Vs. Rebatilata Koley Etc., after referring to its earlier decisions in N. Rangachari Vs. Bharat Sanchar Nigam Ltd., and K.K. Ahuja Vs. V.K. Vora and Another, this Court reiterated the same view.

22. We have found on fact that there is no averment that the two accused herein were in charge of and responsible for the conduct of the business of the company at the time the offence was committed. Hence, there is no essential averment in the complaints. In view of what we have observed above, the prosecution of accused A.K. Singhanian and accused Vikram Prakash cannot be allowed to continue. Accordingly, the order of the High Court quashing the prosecution of the accused Vikram Prakash is not fit to be interfered with. For the same reason the order passed by the High Court declining the prayer of A.K. Singhanian for quashing of the prosecution cannot be sustained and the appeals preferred by him deserve to be allowed.

23. In the result, we dismiss the appeals preferred by the complainant Gujarat State Fertilizers Company Ltd. and allow the appeals preferred by A.K. Singhanian and quash his prosecution in all these cases.