



2025:TSHC:41093

**IN THE HIGH COURT FOR THE STATE OF TELANGANA
AT HYDERABAD**

**TUESDAY, THE FOURTH DAY OF NOVEMBER
TWO THOUSAND AND TWENTY FIVE**

PRESENT

THE HONOURABLE SRI JUSTICE J. SREENIVAS RAO

CRIMINAL PETITION NO: 7258 OF 2020

Between:

1. V. Murali Krishna, Managing Director, M/s. Satya Kalyan Constructions Private Limited, Having its regd. Office at, 8-2-293/174/A/16, B.N. Reddy Colony, Road No. 14, Baniara Hills, Hyderabad.
2. V. Satya Kalyan, Director, M/s. Satya Kalyan Constructions Private Limited., Having its regd. Office at, 8-2-293/174/A/16, R.N. Reddy Colony, Road No. 14, Banjara Hills, Hyderabad.

...PETITIONERS/ACCUSED No.1 & 2

AND

1. The State of Telangana Rep., by its Public Prosecutor, High court of Telangana.
2. Pradeep Kilaru, Managing Director, M/s. Madhava Hytech Infrastructures (India) Pvt., Ltd., Office at 501, Panorama Mansion, Renuka Enclave, Rajbhavan Road, Somajiguda, Hyderabad.

...RESPONDENT/ DEFACTO COMPLAINANT

Petition under Section 482 of Cr.P.C praying that in the circumstances stated in the Memorandum of Grounds of Criminal Petition, the High Court may be pleased to quash the proceedings against the Petitioners/ Accused No. 1 and 2 in Cr. No. 88 of 2020 on the file of the SHO, Central Crime Station, Hyderabad.

I.A. NO: 1 OF 2023

Between:

**The State of Telangana rep.b y the Public Prosecutor, High Court at
Hyderabad. .. Petitioner/ respondent**

And

1. V. Murali Krishna, Managing Director, M/s. Satya Kalyan Constructions Private Limited, Having its regd. Office at, 8-2-293/174/A/16, B.N. Reddy Colony, Road No. 14, Baniara Hills, Hyderabad.



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2. V. Satya Kalyan, Director, M/s. Satya Kalyan Constructions Private Limited.,
Having its regd. Office at, 8-2-293/174/A/16, R.N. Reddy Colony, Road No.
14, Banjara Hills, Hyderabad. .. Respondent/Accused
3. Pradeep Kilaru, Managing Director, M/s. Madhava Hytech Infrastructures
(India) Pvt., Ltd., Office at 501, Panorama Mansion, Renuka Enclave,
Rajbhavan Road, Somajiguda, Hyderabad.

(R-3 is not necessary party) .. Respondent/ Complainant

Petition under Section 482 of Cr.P.C praying that in the circumstances stated in the Memorandum of Grounds of Criminal Petition, the High Court may be pleased to vacate the stay granted in CrI.P.No. 7258/2020 on the file of Hon'ble High Court, dt. 27/01/2021

I.A. NO: 1 OF 2021

Between:

Pradeep Kilaru, Managing Director, M/s. Madhava Hytech Infrastructures (India) Pvt., Ltd., Office at 501, Panorama Mansion, Renuka Enclave, Rajbhavan Road, Somajiguda, Hyderabad. .. Petitioner/ Respondent No. 2

And

1. V. Murali Krishna, Managing Director, M/s. Satya Kalyan Constructions Private Limited, Having its regd. Office at, 8-2-293/174/A/16, B.N. Reddy Colony, Road No. 14, Baniara Hills, Hyderabad.
2. V. Satya Kalyan, Director, M/s. Satya Kalyan Constructions Private Limited.,
Having its regd. Office at, 8-2-293/174/A/16, R.N. Reddy Colony, Road No.
14, Banjara Hills, Hyderabad. .. Respondent/Accused
3. The State of Telangana Rep., by its Public Prosecutor, High court of
Telangana. .. Respondents/ Respondents

Petition under Section 482 of Cr.P.C praying that in the circumstances stated in the Memorandum of Grounds of Criminal Petition, the High Court may be pleased to vacate the order dated 27/01/2021 in CrI Petition No 7248 of 2020 in the interest of justice .

I.A. NO: 2 OF 2020

Petition under Section 482 of Cr.P.C praying that in the circumstances stated in the Memorandum of Grounds of Criminal Petition, the High Court may be pleased to stay all further proceedings against the Petitioners/Accused No. 1 and 2 in Cr. No. 88 of 2020 on the file of the SHO, Central Crime Station, Hyderabad.



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This Petition coming on for hearing, upon perusing the Memorandum of Grounds of Criminal Petition and upon hearing the arguments of Sri G. VAMSHI KRISHNA, Advocate for the Petitioners and Sri M. Vivekananda Reddy, Asst. Public Prosecutor on behalf of the Respondent No.1 and of Sri K.S. Rahul Advocate for the Respondent No. 2

The Court made the following ORDER:

**THE HONOURABLE SRI JUSTICE J. SREENIVAS RAO****CRIMINAL PETITION No. 7258 of 2020****ORDER:**

This Criminal Petition has been filed under Section 482 of the Code of Criminal Procedure, 1973, (for short, 'the Cr.P.C.') by the petitioners/accused Nos.1 and 2 seeking to quash the proceedings in Crime No.88 of 2020 of Central Crime Station, Hyderabad, registered for the offences under Sections 406 and 420 of the Indian Penal Code, 1860 (for short, 'the IPC').

2. Brief facts of the case:

2.1. Respondent No.2 is the Managing Director of M/s. Madhava Hytech Infrastructures (India) Private Limited lodged a complaint stating that he entered into a subcontract agreement dated 24.01.2015 with the petitioners, who are the Managing Director and Director of M/s. Satya Kalyan Constructions Private Limited, for the construction of a bridge across the Hagari River on the Ravari-Belur State Highway (SH-63) at Siriguppa, Bellary District, Karnataka. As per the terms of the agreement, respondent No.2 has to pay the bill amounts to the company of the petitioners after deducting 5% service charges. The substantial amounts were transferred through bank transactions under running Bills Nos. B(10), B(11), and B(12) for purchase of 329.374 tons of TMT, 30 tons of HT Steel, for construction of ramp/embankment for bridge approach and



proposing recovery of Rs.1,65,05,006/- is being recovered from the running account bills.

2.2. However, the petitioners purchased lesser quantities of steel and other materials and diverted the same to their private projects. The petitioners have also failed to execute the agreed work and dishonestly retained certain construction equipment, such as, hydraulic jacks, shutter vibrators, chain pulleys, and other accessories worth approximately Rs.21 lakhs.

2.3. Respondent No.2 further stated that despite receiving an amount of Rs.3,86,36,723/-, the petitioners did not complete the work and have caused a loss of Rs.2,99,32,858/- to him. The petitioners by playing fraud had caused loss to a tune of Rs.3,20,32,858/- to his company. Basing upon the same, he filed a complaint before the Central Crime Station, Hyderabad, which was registered as Crime No. 88 of 2020 on 31.07.2020 for offences punishable under Sections 406 and 420 of the IPC.

3. Heard Mr. V. Murali Manohar, learned counsel, representing Mr. G. Vamshi Krishna, learned counsel for the petitioners, Mr. B. Nalin Kumar, learned Senior Counsel, representing Mr. K. S. Rahul, learned counsel for respondent No.2, and Mr. M. Vivekananda Reddy, learned Assistant Public Prosecutor appearing for respondent No.1 State.



4. Submissions of the learned counsel for the petitioners:

4.1. Learned counsel submitted that the petitioners have not committed any offence and there are no specific *overt acts* or instances against the petitioners to attract the ingredients under Sections 406 and 420 of the IPC. He further submitted that the nature of the allegations made in the complaint are purely civil in nature, arising out of a contract agreement dated 24.01.2015 entered by respondent No.2 company with the petitioners' company namely M/s. Satya Kalyan Constructions Pvt. Ltd., represented by its Managing Director, in respect of construction of a bridge across Hagari River on Raravi-Belur Road (State Highway-63) in Siruguppa Taluk, Bellary District, Karnataka at Bangalore.

4.2. He further submitted that the petitioners commenced the work in 2015 and completed a substantial portion of the project. However, the remaining work could not be completed within the stipulated period, since the required land was not made available. The petitioners had executed the work worth about Rs.11.45 crores, out of which Rs.10.88 crores was paid, and the balance work worth of Rs.57 lakhs is still pending. Respondent No. 2, without considering the above said facts, erroneously terminated the contract on 26.06.2016, on the other hand filed a complaint on 31.07.2020, nearly after four years. The alleged offence under Section 406 IPC carries a



maximum punishment of three years, the complaint is barred by limitation under Section 468 Cr.P.C and respondent No.2 has not given any reason or explanation for this inordinate delay with an oblique motive to implicate the petitioners to resolve the civil disputes, which are not permitted under law.

4.3. He also submitted that there are major contradictions in the complaint. Respondent No.2 claims non-execution of work worth Rs.2,99,32,858/-, simultaneously admitted that only Rs.1,65,05,006/- was recovered from them. Further the Bank Guarantees were invoked by the State of Karnataka on 22.12.2014, which is prior to the agreement executed by the petitioners and respondent No.2, however, the Government subsequently stopped invocation of the Bank Guarantee and extended the time for completion of the construction work, which proves that the delay was not on the part of the petitioners. Respondent No.2 in their arbitration proceedings i.e., A.A.No.01 of 2016, admitted that the delay in completing the works was at the instance of the Government due to non handing over required land only.

4.4. He further submitted that as per the terms and conditions of the contract agreement dated 24.01.2015, if any dispute arises between the parties, the same has to be resolved by way of the arbitration and there is a specific arbitration clause enumerated in the contract agreement. Without



invoking the arbitration clause, respondent No.2 had initiated the criminal proceedings and the same is contrary to the terms and conditions of the contract agreement.

4.5. He further submitted that petitioner No.1, being the Managing Director, and petitioner No.2, being the Director of the company, have been arrayed as accused only because of their official positions. The company is a separate legal entity and in the absence of any specific *overt acts* or evidence to show their personal involvement in the offence, they cannot be held vicariously liable for the acts of the company, merely by virtue of their designation.

4.6. The learned counsel further submitted that even according to the allegations made in the complaint, the contract agreement dated 24.01.2015 was entered by the parties in Karnataka, the execution of the project was in the same state and the entire transaction between the parties has taken place in Karnataka State and no part of cause of the action arises at Hyderabad. In spite of the same, respondent No.2 lodged a complaint before the Central Crime Station, Hyderabad, and the Investigating Officer is not having any authority or jurisdiction to conduct investigation. Under Section 177 Cr.P.C., every offence shall be inquired into and tried by the Court within whose jurisdiction it was committed. He further submitted that respondent No.1 filed counter, wherein it is



specifically stated that after vacating the stay in the present criminal petition, the case will be transferred to Karnataka State on the point of jurisdiction. Hence, the complaint filed by respondent No.2 before the Central Crime Police Station lacks jurisdiction.

4.7. He further submitted that there are no specific allegations against the petitioners and the allegations are pertaining to non-performance of contractual obligations without any element of deception or dishonest intention at the inception. It is untenable under law to criminalize a commercial transaction merely because there are civil disputes existing between the parties. Hence the F.I.R is liable to be quashed.

4.8. In support of his contention, he relied upon the judgments:

1. **Sunil Bharti Mittal v. Central bureau of Investigation¹;**
2. **Sharon Michael and Ors v. State of Tamil Nadu and Ors²;**
3. **Delhi Race Club (1940) Ltd. And Ors v. State of Uttar Pradesh and Ors.³;**
4. **Madhavrao Jiwajirao Scindia and Ors v. Sambhajirao Chandrojirao Angre and Ors.⁴;**

¹ (2015) 4 SCC 609

² (2009) 3 SCC 375

³ (2024) 10 SCC 690

⁴ (1988) 1 SCC 692



5. **State of Haryana and Ors. v. Ch. Bhajan Lal and Ors.⁵;**
6. **Y.Abraham Ajith and Ors v. Inspector of Police, Chennai and Ors.⁶;**
7. **Hasmukhlal D. Vora and another v. State of Tamil Nadu.⁷**
8. **Hridaya Rajan Prasad Verma and Ors v. State of Bihar and Another⁸; and**
9. **Naresh Kumar and Another v. State of Karnataka and Another⁹.**

5. Submissions of the learned Counsel for respondent No.2:

5.1. Learned Senior Counsel for respondent No.2 submitted that the complaint discloses specific allegations constituting offences under Sections 406 and 420 of the IPC against the petitioners. The respondent No.2's company, namely, M/s. Madhava Hytech Infrastructures (India) Private Limited, had entrusted construction of bridge work across Hagari River on Raravi-Bellur Road (State Highway-63) in Siruguppa Taluk, Bellary District, Karnataka, to petitioner No.1's company, namely, M/s. Satya Kalyan Constructions Private Limited, through a contract agreement dated 24.01.2015. The petitioners, being the Managing Director and Director, especially they are father and son, were in complete control of

⁵ 1992Supp(1)SCC335

⁶ (2004) 8 SCC 100

⁷ (2022) 15 SCC 164

⁸ (2000) 4 SCC 168

⁹ 2024 SCC OnLine SC 268



the affairs of the company and were personally involved in the execution of the work and the financial transactions connected therewith.

5.2. He further submitted that under the terms and conditions of the contract agreement, respondent No.2's company was to pay the amounts received from the Karnataka Government to the petitioners' company after deducting 5% towards service charges. Accordingly, substantial amounts were transferred through regular banking channels towards execution of the work and purchase of steel and other construction materials. However, against the said payments, only a small quantity of material was purchased and later on, the said material was also diverted to their personal project.

5.3. He further submitted that under running Bill No.B(10), an amount of Rs.2,14,44,944/- was released towards purchase of 329.374 tons of TMT steel and 30 tons of HT steel. After deducting 5%, the balance amount was transferred to the petitioners' bank account for procurement of the same. However, the petitioners purchased only 120 tons and later shifted the entire material to their private premises at Tekkalakote, Bellary, and thereafter to their other project at Visakhapatnam. Similarly, under running Bill No.B(11), a further amount of Rs.65,87,914/- was transferred for



embankment work, but the petitioners failed to utilize it for the intended purpose and misappropriated.

5.4. He also submitted that apart from diverting materials and misusing funds, the petitioners also took away hydraulic jacks, shutter vibrators, chain pulleys, and other accessories valued at approximately Rs.21,00,000/- from respondent No.2's site and failed to return them despite repeated requests. The petitioners abandoned the work midway, resulting in huge loss, and recovery proceedings have being initiated by the Department from respondent No.2's company running bills and respondent No.2 was compelled to initiate legal action after all efforts to resolve the issue failed.

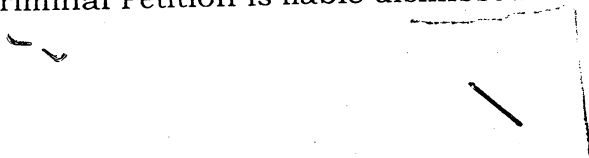
5.5. He further contended that the allegations made in the complaint clearly indicate a dishonest intention on the part of the petitioners from the inception of the transaction. The petitioners induced respondent No.2 to give them large sums of money on the false representation that the amounts would be used for completion of work and procurement of material, but instead, they diverted the same for their personal use. The conduct of the petitioners, in taking advance payments and thereafter failing to perform the work, squarely attract the ingredients of cheating and criminal breach of trust under Sections 406 and 420 of the IPC.



5.6. Learned Senior Counsel vehemently contended that the existence of a civil remedy does not preclude the party to initiate criminal proceedings when elements of deception and dishonest inducement are evident from inception. The allegations are supported by documentary evidence, including running account bills, bank transfer records, and statements of the witnesses and site personnel, all of which demonstrate that the petitioners had mis-used, misappropriated the funds and retained the equipment entrusted to them.

5.7. He further submitted that the petitioners have already given reply to the notice issued under Section 41-A Cr.P.C. When the investigation is under progress, the petitioners have filed this criminal petition and all the contentions raised by the petitioners are disputed facts and the same cannot be adjudicated at the stage of crime and the real truth will come out after investigation only.

5.8. Learned Senior Counsel contended that the F.I.R. discloses a clear *prima facie* case and that the petitioners, being directly responsible for the financial and operational decisions of the company, cannot escape criminal liability by merely taking shelter under the corporate structure. The plea that the matter is civil in nature is misconceived, as the dishonest intention of the petitioners is evident from the inception. Hence, the Criminal Petition is liable dismissed.





5.9. In support of his contention, he relied upon the judgments:

1. **Iridium India Telecom Limited v. Motorola Incorporated and Ors.**¹⁰;
2. **Interlink Pvt. Ltd. v. Union of India**¹¹;
3. **Neeharika Infrastruttre Private Limited v. State of Maharashtra and Ors.**¹²;
4. **Mahendra K.C. v. State of Karanataka and Ors.**¹³;
5. **Priti Saraf and Ors. v. State (NCT of Delhi) and Ors.**¹⁴; and
6. **Shantaben Bhurabhai Bhuriya v. Anand Athabhai Chaudhari and Ors.**¹⁵

6. Learned Assistant Public Prosecutor has reiterated the submissions of respondent No.2.

Analysis

7. Having considered the rival submissions made by the respective parties and after perusal of the material available on record, it reveals that the petitioners are Managing Director and Director of their own company i.e. M/s.Satya Kalyan Constructions Private Limited. Petitioners' company entered into a contract with respondent No.2's company through contract agreement dated 24.01.2015, as the contract work, namely, construction of a bridge across the Hagari River on the

¹⁰ (2011) 1 SCC 74

¹¹ Manu/OR/1024/2025

¹² (2021) 19 SCC 401

¹³ (2022) 2 SCC 129

¹⁴ (2021) 16 SCC 142

¹⁵ (2022) 15 SCC 228



Ravari-Belur State Highway (SH-63) at Siriguppa, Bellary District, Karnataka, which was awarded in favour of respondent No.2's company by the Government of Karnataka on 09.01.2013. According to the parties, the petitioners are required to execute the above said work. As per the said contract agreement, respondent No.2's company is required to pay the amounts received through bills from the Government of Karnataka after deducting 5% of the service charges to the petitioners and if there is any breach of terms and conditions of the contract agreement or delay in execution of the work, the parties are required to pay the damages.

8. From perusal of the complaint, it reveals that respondent No.2 specifically stated that they have received an amount of Rs.2,14,44,944/- through Bill No.B(10) towards purchase of 329.374 tons of TMT and 30 tons of HT steel from Government of Karnataka. The above said amount was transferred to the petitioners' bank account by deducting 5% of the service charges. However, the petitioners have purchased a small quantity of material, approximately 120 tons, and later they diverted the said material to their stone quarry located Tekkalkota, Karnataka, later it was shifted to their office in Kalian Farms, Bellari Hombavi, near SP circle on Raichur Bellary road and later also shifted to their construction company apartment project in Visakhapatnam. It is also stated that respondent No.2's company received an amount of



Rs.65,87,914/- through account Bill No.B(11) for construction of ramp/embankment for bridge and the said amount was also transferred to the petitioners' account after deducting 5% of the service charges and the petitioners have not utilized it for the work which was entrusted to their company and they misused the same. Further, the petitioners have taken Hydraulic jacks, shutter vibrators, chainpully and other accessories valued at Rs.21,00,000/- from respondent No.2, but they did not return the said equipment. Due to delay in progress of work, the Department had issued running account Bill No.B(12) proposing recovery of Rs.1,65,05,006/- from the running account bills of respondent No.2's company. It is further stated that the petitioners have received an aggregate sum of Rs.3,86,36,723/-, out of which Rs.2,99,32,855/-, was mis-used and they failed to purchase the material nor execute the work as required to be done, as per the terms and conditions of the contract agreement. It is specifically stated that the petitioners have cheated with a dishonest intention from the date of inception while entering into the contract agreement and the amounts which were transferred by respondent No.2 has not been utilized for the purpose of purchasing the material and the meager material purchased by the petitioners through the said funds was also shifted to their own project.

9. The record reveals that Investigating Officer had issued a notice under Section 41-A of the Cr.P.C. to the petitioners on



06.11.2020 and pursuant to the same, the petitioners submitted a reply on 11.12.2020. The Investigating Officer has examined LWs.1 to 4 and recorded their statements. When the investigation is under progress, the petitioners have approached this Court and filed the present Criminal Petition.

10. The core contention of learned counsel for the petitioners that the contract agreement dated 24.01.2015 was terminated by respondent No.2 on 26.06.2016 and filed the present complaint on 31.07.2020 after lapse of more than four years and the same is barred by limitation as per the provisions of Section 468 of the Cr.P.C is concerned, respondent No.2 stated in the complaint that the petitioners with a dishonest intention, misused the funds transferred by him, and purchased meager material and later the same was shifted to their own project and also failed to return the equipment and that as soon as he came to know about said illegalities and fraudulent activities, he lodged the present complaint.

11. It is relevant to mention that in **Sarah Mathew v. Institute of Cardio-Vascular Diseases**¹⁶, the Constitutional Bench of the Hon'ble Supreme Court has clearly held that the period of limitation is to be calculated from the date of filing of the complaint or charge-sheet, not from the date of the FIR or the date of cognizance. The Court further clarified that the bar of limitation

¹⁶ (2014) 2 SCC 62



does not affect the investigation process. Likewise, in **Assistant Collector of Customs v. L.R. Melwani**¹⁷, the Constitutional Bench of the Hon'ble Apex Court has observed that mere delay in filing a complaint cannot by itself be a ground to quash proceedings and may only be considered during trial. In **Vanka Radhamanohari v. Vanka Venkata Reddy**¹⁸, the Hon'ble Apex Court also held that when any of the offences alleged is punishable with imprisonment of more than three years, the entire prosecution is outside the scope of limitation. In the present case, the offence under Section 420 of the IPC is punishable with imprisonment up to seven years. Therefore, this Court is of the view that the petitioners are not entitled to seek quash the crime on the ground of delay in lodging the complaint at this stage.

12. In **Hasmukhlal D. Vora** *supra*, the Hon'ble Apex Court while referring to the judgment **Bijoy Singh v. State of Bihar**¹⁹, held that where inordinate and unexplained delay in prosecution can indicate *mala fide* intent and be fatal to the case. When there is no explanation offered for the delay, leading the Court to infer a possible sinister motive. Emphasizing that criminal proceeding must serve justice and not be used to harass, the Court quashed the complaint proceedings pending in the Metropolitan Magistrate's Court. In

¹⁷ 1968 SCC OnLine SC 161

¹⁸ (1993) 3 SCC 4

¹⁹ (2002) 9 SCC 147



the case on hand, the issue of delay in lodging the complaint is a matter for investigation and trial, it cannot be decided at this stage, as there are specific allegations against the petitioners.

13. In **Shantaben Bhurabhai Bhuriya** *supra*, the Hon'ble Supreme Court held that a delay in lodging an FIR or complaint cannot by itself be a ground to quash criminal proceedings under Section 482 CrPC. The Court clarified that the issue of delay is a matter of evidence to be examined during trial, where the complainant can be questioned about and explain the reasons for such delay during cross-examination. Therefore, the mere fact that the FIR or complaint was filed belatedly does not justify the quashing of proceedings at the threshold; as such determinations require appreciation of facts and evidence, which falls within the domain of the trial court.

14. Insofar as the other contention raised by the learned counsel for the petitioners that lifting of corporate veil and making the petitioners as an accused merely they are discharging the official duties as Managing Director and Director of the Company by invoking penal provisions is not maintainable under law is concerned, the specific case of respondent No.2 is that the petitioners are father and son established the company and they are managing day-to-day affairs of the company and their company entered into contract agreement with respondent No.2's company and they received a



huge amount from respondent No.2 and they mis-used the amount and the same were not utilized for the purpose of execution of the work and not purchased the required material and they diverted the material into their personal project and from the date of inception, there is a dishonest intention on their part. Merely because the alleged acts were carried out under the name of a company, the petitioners cannot take shelter behind the doctrine of corporate personality. The corporate veil may be lifted where it is alleged that the individuals in control have themselves committed acts of misappropriation or diversion of material. When specific allegations are levelled against the petitioners about their active participation in mis-usage of funds and dishonest intention on their part, this Court is of the view that the petitioners are not entitled to seek quash the proceedings on the ground of corporate veil.

15. In **Sunil Bharti Mittal** and **Sharon Michael** *supra*, the Hon'ble Supreme Court reaffirmed the settled principle of law that a company, being a juristic person, may incur criminal liability through the doctrine of "alter ego," whereby the *mens rea* of those in control of its affairs is imputed to the company. However, this doctrine cannot operate inversely to attribute the company's acts or intent to its directors or officers. Personal criminal liability of directors arises only where there is specific material indicating their active participation with requisite



mens rea, or where a statutory provision expressly creates vicarious liability and that in the absence of such statutory backing or evidence of fraudulent intent, allegations arising out of contractual disputes remain within the realm of civil law. Thus, vicarious criminal liability cannot be presumed merely by virtue of one's designation in the company. In the present case, the petitioners were in complete control of the affairs of the company and were the direct beneficiaries of the amounts released by the respondent No.2. Merely because the alleged acts were carried out under the name of a company, the petitioners cannot take shelter behind the doctrine of corporate personality. The corporate veil may be lifted where it is alleged that the individuals in control have themselves committed acts of misappropriation or diversion of material. When specific averments disclose their active participation and dishonest intention, they cannot avoid criminal liability on the pretext that the transactions were made in the company's name.

16. In **Priti Saraf** *supra*, the Hon'ble Supreme Court reaffirmed that the existence of an arbitration clause or the initiation of arbitral proceedings does not bar or nullify criminal prosecution if the allegations disclose the commission of an offence. Referring to **Trisuns Chemical Industry v. Rajesh Agarwal and Ors**²⁰, the Court held that arbitration is a civil remedy for contractual breaches and cannot substitute or

²⁰ (1999) 8 SCC 686



override the criminal process where the acts complained of constitute offences under law. An arbitrator has no jurisdiction to try criminal charges, even if they arise out of the same transaction. The Court emphasized that investigation and criminal proceedings should not be pre-empted or quashed merely because an arbitration mechanism exists, except in rare cases where the complaint is patently frivolous or malicious. It further observed that the High Court had erred in failing to consider the charge-sheet on record before concluding that no prima facie offence was made out, noting that such issues can only be properly assessed during trial.

17. In **Iridium India Telecom Ltd.** *supra*, the Hon'ble Supreme Court held that corporations are not immune from criminal prosecution merely because they are artificial entities incapable of forming a mental state on their own. It was observed that in jurisdictions governed by the rule of law, such as the UK and the US, corporate bodies can be held liable for offences requiring *mens rea* (criminal intent). The Court affirmed that a corporation stands on the same footing as an individual and may be convicted of both statutory and common law offences, including those involving intent. Corporate criminal liability arises when the offence is committed in connection with the business of the corporation by persons or groups who are in complete control of its affairs, such that the company can be said to think and act through them. The



doctrine of "alter ego" was applied to attribute the guilty mind and acts of those controlling individuals to the corporation itself, thereby establishing that companies can be criminally liable where such intent is proved.

18. In **Interlink (P) Ltd.** *supra*, the Orissa High Court at Cuttack, categorically held that a company can be prosecuted for offences requiring *mens rea*, such as cheating and criminal conspiracy under Sections 420 and 120-B IPC. The Court rejected the contention that a juristic person is incapable of possessing criminal intent, observing that under Section 11 of the Indian Penal Code, the term "person" includes a company.

19. Insofar as the other contentions raised by the learned counsel for the petitioners that even according to the allegations made in the complaint the offences under Sections 406 and 420 of the IPC were not made out and there is no allegation of inducement or misrepresentation at the time of the execution of the contract agreement and there is no entrustment of property and also there is no allegation of criminal breach of trust and the nature of the allegations are purely civil in nature and as per the terms of contract, respondent No.2 ought to have initiated arbitration proceedings are concerned, respondent No.2 has made specific allegations against the petitioners that respondent No.2's company entrusted the work and transferred huge amounts for



purchasing the material for execution of contract work, however, the petitioners purchased small quantity of material and the said material subsequently was shifted to their own project and the petitioners with a dishonest intention mis-used the amounts. Basing on the above said allegations, this Court is of the considered view that *prima facie* discloses the ingredients of the offences under Sections 406 and 420 of the IPC and mere existence of arbitration clause does not bar to initiate criminal proceedings when allegations disclose commission of offence.

20. In **Mahendra K.C.** *supra*, the Hon'ble Supreme Court held that while exercising powers under Section 482 CrPC, the High Court must not act as a trial or appellate court by weighing evidence or testing the truth of allegations. At the quashing stage, the only test is whether the allegations in the complaint, taken at face value, *prima facie* make out the ingredients of the alleged offence. The Court criticized the High Court for exceeding its jurisdiction by assessing the veracity of the suicide note and the complainant's statements without an evidentiary record. Reiterating settled law, the Court observed that the inherent power under Section 482 is wide but must be used sparingly and with caution to prevent abuse of the process of law or to secure the ends of justice. It further clarified that the High Court should apply two key tests while considering quashing of an ~~FIR~~ ^{FIR} (i) whether the allegations, if taken as true,



prima facie constitute an offence, and (ii) whether they are so improbable that no reasonable person could conclude that sufficient ground exists to proceed.

21. In **Hridaya Ranjan Prasad Verma** *supra*, the Hon'ble Supreme Court held that mere breach of contract does not amount to cheating unless it is shown that the accused had a fraudulent or dishonest intention at the very beginning of the transaction. The Hon'ble Supreme Court explained that cheating requires proof of *mens rea* at the time of inducement, and later failure to keep a promise does not establish criminal intent. Since the complaint lacked allegations showing such dishonest intent, the criminal proceedings were quashed as an abuse of process of law, the dispute being purely civil in nature.

22. In **Y. Abraham Ajith** *supra*, the Honble Supreme Court held that territorial jurisdiction in criminal cases depends on where the alleged offence occurred. The complaint filed in Chennai under Sections 498-A and 406 IPC was quashed because no part of the cause of action had arisen there; all alleged acts took place in Nagercoil. The Court clarified that "cause of action" in criminal law refers to the local area where the offence was committed under Section 177 Cr.P.C. and that continuing offence provisions (Section 178) were not applicable in this case.



23. In **Naresh Kumar** *supra*, the Hon'ble Supreme Court quashed an FIR alleging cheating and breach of trust in a commercial dispute over bicycle supply payments, noting that the issue was purely civil and had already been settled by compromise. The Court emphasized that criminal proceedings cannot be used as a tool for harassment and that under Section 482 Cr.P.C., High Courts should quash cases that are civil in nature but given a criminal colour. The Court reiterated that intention to cheat must exist from the beginning, and a later failure or non-payment does not amount to a criminal offence.

24. In **Delhi Race Club (1940) Ltd.** *supra*, the Hon'ble Supreme Court quashed criminal proceedings for offences under Sections 406, 420 and 120B IPC arising from non-payment of Rs.9,11,434/- towards horse feed supplied to the Delhi Race Club. The Court held that even if all allegations were accepted as true, no criminal offence was made out since the dispute was purely civil in nature, concerning non-payment for goods sold. It reiterated that criminal breach of trust requires entrustment of property and dishonest misappropriation, while cheating requires dishonest intention at the inception of the transaction both of which were absent. The Court further observed that mere failure to pay for goods or breach of contract cannot constitute a criminal offence. It also clarified that vicarious ~~liability~~ of company directors cannot be presumed unless a statute expressly provides for it or there are



specific allegations of personal involvement. Criticizing the High Court for non-application of mind, the Bench held that summoning an accused is a serious matter requiring judicial satisfaction based on sufficient material. Consequently, the Supreme Court quashed the summoning order and FIR, reaffirming that civil disputes should not be given a criminal colour and that Courts must prevent misuse of criminal law for recovery of money.

25. In **Madhavrao Jiwaji Rao Scindia** *supra*, the Hon'ble Supreme Court held that when a request is made to quash a criminal prosecution at the initial stage, the key test is whether the uncontroverted allegations made in the complaint *prima facie* establish an offence. The Court must also consider whether it is expedient and in the interest of justice to allow the prosecution to continue. It observed that the criminal process cannot be used for oblique or vexatious purposes, and if the chances of conviction are bleak, it is proper to quash the proceedings even at a preliminary stage. The Court clarified that while a breach of trust may give rise to both civil and criminal liability, certain cases are predominantly civil in nature where the criminal ingredients are missing. Thus, the Court quashed the criminal proceedings to prevent misuse of judicial process.



26. The reliance placed by the petitioners on **Hridaya Ranjan Prasad Verma, Naresh Kumar, Delhi Race Club** and **Madhavrao Scindia** are not applicable to the facts and circumstances of the case. In these cases, the disputes that were purely civil in nature arising out of contractual breaches, without any allegation of fraudulent or dishonest intent at the inception. Whereas, in the present case, there are specific allegations that the petitioners, who are Managing Director and Director, diverted materials and misappropriated funds entrusted for the project, which, if accepted at face value, disclose the ingredients of offences under Sections 406 and 420 IPC.

27. In **Neeharika Infrastructure, Mahendra K.C., Priti Saraf, Shantaben Bhurabhai, Interlink**, and **Iridium** *supra*, the Hon'ble Supreme Court held that the power to quash under Section 482 Cr.P.C. should be exercised sparingly and only in the rarest cases, that courts cannot assess the truth of allegations at the investigation stage, and that existence of civil remedies does not bar criminal proceedings where dishonest intent is alleged. Applying these principles, as the FIR discloses a prima facie case of misappropriation and dishonest intention, the investigation cannot be interfered with at this stage.

28. The other contention raised by the learned counsel for the petitioners is that the entire cause of action arose at State of



Karnatka i.e. execution of Contract Agreement between the parties and execution of work place, whereas respondent No.2 lodged the complaint at Central Crime Station, Hyderabad, and the same is not maintainable under law is concerned, the specific allegation of the respondent No.2 company in the complaint is that they transferred huge amount of Rs.2,14,44,944/-, Rs.65,87,914/- into the accounts of the petitioners by deducting 5% of the service charges and the said accounts of the petitioners were situated in Hyderabad, namely IOB, Adarshnagar, Hyderabad, and the said amounts were mis-used by the petitioners. The record further reveals that offices of the petitioner's company as well as respondent No.2's company were situated in Hyderabad. It is already stated *supra* that the investigating agency has commenced the investigation and examined four witnesses and issued notice under Section 41-A of the Cr.P.C. to the petitioners and they submitted reply. This Court is of the considered view that basing on the jurisdictional aspect, the petitioners are not entitled to seek quashing of the proceedings, at this stage. In the event, the investigating agency comes to the conclusion that further investigation has to be done by the other jurisdictional police, they will take appropriate steps in accordance with law.



29. In **Satish Dharmu Rathod v. The State of Maharashtra**²¹, the Division Bench of the Bombay High Court, referred to the Hon'ble Apex Court's judgment in **Satvinder Kaur v. State (Government of NCT of Delhi)**²², and held that as per Section 156(2) of the Code of Criminal Procedure, no police investigation can be questioned on the ground that the police officer did not have territorial jurisdiction. The Court explained that even though Section 156(1) mentions territorial limits, sub-section (2) clearly stops courts from interfering with an investigation on that basis. The Court further held that an FIR cannot be cancelled or quashed at the investigation stage only because the alleged offence may have happened outside the limits of that police station. After the investigation, if the officer finds that the offence took place in another area, he can transfer the FIR to the correct police station. Therefore, this is court of the consider view that the High Court should not interfere with investigation under Section 482 Cr.P.C. only on the ground of territorial jurisdiction.

30. It is already stated *supra* that whether there is any dishonest intention on the part of the petitioners, whether they have misused the amounts, which were received from respondent No.2 and diverted the material into their own

²¹ 2017 SCC OnLine Bom 186

²² (1999) 8 SCC 728



project or not, are disputed facts and the same have to be revealed during the course of investigation, especially the investigation is under progress. Hence, this Court is of the considered view that the petitioners are not entitled to seek quashing of the proceedings at this stage.

31. It is trite law that the power under Section 482 of the Code of Criminal Procedure to quash the First Information Report is to be exercised sparingly and with great caution, and only in the rarest of rare cases where the allegations in the FIR, *prima facie*, do not disclose the commission of any offence. In **State of Haryana v. Bhajan Lal**²³, the Hon'ble Supreme Court has issued a note of caution that such extraordinary power cannot be invoked to stifle a legitimate investigation or to embark upon an inquiry into the truth or otherwise of the allegations. An FIR is not required to be an encyclopaedia of all facts relating to the alleged offence. It is only intended to set the criminal law in motion and to enable the investigating agency to collect material to ascertain the truth of the allegations. In the present case, the investigation is still in progress and, therefore, this Court cannot at this stage go into the merits of the allegations made in the FIR.

32. For the foregoing reasons as well as the principles laid down by the Hon'ble Apex Court *supra*, this Court does not find

²³ (1992) Supp (1) SCC 335



any ground to quash the proceedings in F.I.R.No.88 of 2020 on the file of the Central Crime Station, Hyderabad, by exercising the powers conferred under Section 482 of the Cr.P.c. and the same is liable to be dismissed.

33. Accordingly, the Criminal Petition is dismissed. It is needless to observe that any of the observations made in this order are only confined for the purpose of deciding this case.

Miscellaneous applications, pending if any, shall stand closed.

SD/-B.REKHA RANI
ASSISTANT REGISTRAR

//TRUE COPY//

SECTION OFFICER

One Fair Copy to the Hon'ble Sri Justice J. SREENIVAS RAO
(For His Lordships kind Perusal)

To

1. The XII Additional Chief Metropolitan Magistrate at Nampally, Hyderabad.
2. The Station House Officer, Central Crime Station, Hyderabad.
3. 11 LR Copies
4. The Under Secretary, Union of India Ministry of Law, Justice and Company Affairs, New Delhi
5. The Secretary, Telangana Advocates Association Library, High Court for the State of Telangana, High Court Buildings at Hyderabad.
6. One CC to Sri G. Vamshi Krishna, Advocate (OPUC)
7. One CC to Sri K.S. Rahul, Advocate (OPUC)
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2025:TSHC:41093

HIGH COURT

DATED:04/11/2025

NOTE

L.R. COPY TO BE MARKED

ORDER

CRL.PETITION No.7258 of 2020



DISMISSING THE CRL.PETITION.

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Asu
14/11/25