

**IN THE HIGH COURT OF KARNATAKA AT BENGALURU**

**DATED THIS THE 9<sup>TH</sup> DAY OF MARCH, 2026**

**PRESENT**

**THE HON'BLE MRS. JUSTICE ANU SIVARAMAN**

**AND**

**THE HON'BLE MR. JUSTICE VIJAYKUMAR A. PATIL**

**MISCELLANEOUS FIRST APPEAL NO. 7076 OF 2025**  
**(KPIDFA)**

**BETWEEN:**

K.C. NATARAJAN  
S/O K.S. CHAYAPATHI  
AGED ABOUT 80 YEARS  
RESIDING AT No.1153  
SHREE CHAYA, 3<sup>RD</sup> MAIN  
2<sup>ND</sup> PHASE, GIRINAGARA  
BANASHANKARI III STAGE  
BENGALURU-560 085

...APPELLANT

(BY SRI. HITESH GOWDA B.J., ADVOCATE)

**AND:**

1 . THE COMPETENT AUTHORITY  
FOR SRI GURUSARVABHAUMA  
SOUHARDA CREDIT CO-OPERATIVE LTD  
BENGALURU  
OFFICE OF THE MANAGING DIRECTOR  
KARNATAKA PUBLIC LAND CORPORATION

URBAN DC OFFICE BUILDING  
K.G. ROAD, BENGALURU-560 009

2 . SRI GURUSARVABHAUM SOUHARDA  
CREDIT CO-OPERATIVE LTD  
REP. BY MANAGING DIRECTOR  
SRI. K. RAMAKRISHNA  
SHANKARPRAM, No.28  
SHANKAR MUTT ROAD  
BENGALURU-560 004

...RESPONDENTS

(BY SRI. VEERESH R. BUDIHAI, ADVOCATE FOR C/R1)

THIS MFA IS FILED U/S.16 OF THE KARNATAKA PROTECTION OF INTEREST OF DEPOSITORS IN FINANCIAL ESTABLISHMENTS ACT, AGAINST THE ORDER DATED 28.06.2025 PASSED IN MISC. No.736/2022 ON THE FILE OF THE XCI ADDITIONAL CITY CIVIL AND SESSIONS JUDGE, SPECIAL JUDGE FOR KPIDFE CASES, BENGALURU, ALLOWING THE PETITIONS FILED U/S.5(2) OF KPIDFE ACT AND ETC.

THIS APPEAL HAVING BEEN HEARD AND RESERVED FOR JUDGMENT ON 25.02.2026 AND COMING ON FOR PRONOUNCEMENT OF JUDGMENT THIS DAY, **ANU SIVARAMAN J.**, PRONOUNCED THE FOLLOWING:

CORAM: HON'BLE MRS. JUSTICE ANU SIVARAMAN  
and  
HON'BLE MR. JUSTICE VIJAYKUMAR A. PATIL

**CAV JUDGMENT****(PER: HON'BLE MRS. JUSTICE ANU SIVARAMAN)**

This appeal is filed challenging the Order dated 28.06.2025 passed by the XCI Additional City Civil and Sessions Judge, Bengaluru (CCH-92) ('Special Court' for short) in Misc.No.736/2022 filed by respondent No.1 under Section 5(2) of the Karnataka Protection of Interest of Depositors in Financial Establishments Act, 2004, ('KPIDFE Act' for short) thereby confirming the Interim Order of attachment dated 04.11.2021 in respect of the petition schedule property.

2. We have heard Shri. Hitesh Gowda B.J, learned counsel appearing for the appellant and Shri. Veeresh R Budihal, learned counsel appearing for respondent No.1.

3. The petition averments were as follows:-

It was alleged that Shri. Gurusarvabhauma Souharda Credit Co-operative Limited ('Credit Co-operative Limited' for short) - respondent No.1 and its associates - respondents No.2 and 3, induced depositors by offering higher interest rates but failed to repay the principal and assured interest

on maturity or demand. The deposited funds were criminally misappropriated and unlawfully diverted for the purchase of movable and immovable properties and for clearing outstanding loans of borrowers of Sri. Guru Raghavendra Sahakara Niyamita Bank.

On complaints filed by the depositors, the Government on 23.07.2020 appointed the petitioner as the Competent Authority for the Credit Co-operative Limited. Thereafter, in exercise of the powers under Section 3(2) of the KPIDFE Act, the Government passed an Interim Order of attachment on 04.11.2021, attaching the properties of respondent No.1 and its associates. The Interim Order of attachment was published in Karnataka Gazette on 12.11.2021, in two widely circulated newspapers on 04.12.2021 and was affixed at a conspicuous place on the petition schedule property. The Competent Authority filed the present petition on 30.05.2022 under Section 5(2) of the KPIDFE Act seeking to make the Interim Order of attachment absolute. Respondent No.3, one of the Directors of the Credit Co-operative Limited, is the owner of the petition schedule property. As

the assets of respondent No.1 were insufficient to satisfy deposit liabilities, the Competent Authority contended that the provisional attachment of the personal property of respondent No.3 should be made absolute to repay the depositors.

4. It was the contention of the appellant/respondent No.3 before the Special Court that the petitioner had suppressed material facts and failed to establish a *prima-facie* case and that the attachment was made without application of mind. He submitted that he purchased the petition schedule property under a registered Sale Deed on 06.10.1978, prior to becoming the Director of the Credit Co-operative Limited and before the KPIDFE Act came into force. Having received no remuneration from the Credit Co-operative Limited, he claimed that the property was lawfully acquired from his independent means. It was further contended that he was not the Managing Director, had no role to play in day-to-day affairs of the Credit Co-operative Limited and that the attachment of his property was without due process of law.

5. The Special Court observed that though the petition schedule property was purchased by appellant in the year 1978 itself, out of his own income, that cannot be a ground for detaching the property from attachment. Further, it was not the case of appellant that there are other properties under attachment which are sufficient to satisfy the claim of the depositors of the Credit Co-operative Limited. The Special Court held that the appellant had not made out any grounds or shown cause as to why the Interim Order of attachment passed by the Government with regard to the petition schedule property should not be made absolute. The Special Court by Order dated 08.08.2022, allowed the petition and made the Interim Order of attachment dated 04.11.2021 absolute.

6. The appellant challenged the Order dated 08.08.2025 in Writ Petition No.18682/2022. The appellant contended that the date on which the petition schedule property was purchased, the Credit Co-operative Limited was not even in existence and that there was gross non-application of mind on the part of the Special Court. The

learned Single Judge observed from the documents placed on record that the property was purchased by the petitioner in the year 1978 and though no evidence was placed on behalf of the petitioner or the respondents, the document produced by the Competent Authority itself ought to have been looked into by the Special Court. The learned Single Judge remitted the matter back to the Special Court to consider the issue afresh and pass appropriate orders in accordance with law bearing in mind the observations made in the course of the Order. Accordingly, the writ petition was allowed-in-part and the Order dated 08.08.2022 was quashed.

7. Subsequently, the Special Court, after reconsideration of the matter held that in view of the specific provision under Section 3 of the KPIDFE Act, the contention that the petition schedule property was acquired much prior to the enactment or the allegations cannot be a ground to exclude it from attachment. It was also found that the contention that the appellant was not an active Director of the Credit Co-operative Limited, cannot be accepted. It was

also observed that respondent No.1 had substantial liabilities and insufficient assets to repay depositors and that it was necessary to auction the personal property of the Directors of the Financial Establishment to meet the deposit liability. Accordingly, the petition was allowed and the provisional Interim Order of attachment dated 04.11.2021 was made absolute.

8. The learned counsel appearing for the appellant contends before us that the petition schedule property was purchased under a registered Sale Deed dated 06.10.1978, long before the appellant became a Director, before the Credit Co-operative Limited came into existence and prior to the enactment of the KPIDFE Act. The Notarized Sale Deed is produced before the Special Court as Annexure - R1. The appellant, being a Government servant with sufficient independent means, did not receive remuneration from the Credit Co-operative Limited and was not the Managing Director. There is no evidence to show that the appellant diverted the depositors' funds or that the property was purchased from any such alleged diversion.

9. It is further contended that the Competent Authority failed to conduct proper inquiry, misled the Special Court and obtained the attachment Order without establishing a *prima-facie* nexus between the property and the alleged misappropriation. The proceedings are alleged to be frivolous and beyond the scope of the KPIDFE Act, which permits attachment only of properties acquired from depositors' funds. This Court, while remitting the matter had directed the Special Court to determine whether the property was purchased from the depositors' fund, placing the burden on the Competent Authority. It is also contended that the appellant resides with his family in the petition schedule property, which is his sole dwelling house and that deprivation of his only residence is inequitable and contrary to the settled legal principles. In the absence of proof of nexus, the attachment is unsustainable and amounts to deprivation of property without authority of law under Article 300-A of the Constitution of India and violates the appellant's right to shelter under Article 21 of the Constitution of India.

10. The learned counsel appearing for the Competent Authority, on the other hand, contends that it has been established before the Special Court that the Credit Co-operative Limited had collected deposits from the public and was unable to make the repayments of such deposits. It was specifically found that the assets of respondent No.2, that is, the Credit Co-operative Limited is only Rs.31,76,76,468/-, whereas the deposit liabilities stand at Rs.245 Crores. Resultantly there is a deficit of Rs.213,23,23,532/-. Relying on the provisions of Section 3 of the KPIDFE Act, the Special Court found that where the property of the Financial Establishment is insufficient for repayment of deposits, the personal assets of the Promoters, Partners, Directors, Managers or Members or any other person of the Financial Establishment are also to be attached. It was further found that the reading of Section 5(2) of the KPIDFE Act would make it clear that it is for the person interested in the property attached to show cause before the Special Court as to why the attachment shall not be made absolute.

11. In the instant case, it is contended that the Special Court had specifically considered that the appellant herein is admittedly the owner of the petition schedule property. It is also found that the Credit Co-operative Limited has huge liabilities and its assets are not sufficient to pay the deposits. It was also found that the appellant herein was admittedly one of the Directors of the Credit Co-operative Limited and the fact that the property was his own self-acquired property could not be a cause for not making the attachment absolute, in view of the fact that the assets of the Credit Co-operative Limited are insufficient to meet its liabilities.

12. We have considered the contentions advanced. We notice that the Special Court has specifically considered the provisions of the Statute. Section 3(2) of the KPIDFE Act provides for attaching the money or property believed to have been acquired by the Financial Establishment either in its own name or in the name of any other person from out of the deposits collected by the Financial Establishment. However, where it transpires that the money or property of

the Financial Establishment or the property believed to have been acquired by the Financial Establishment either in its own name or in the name of any other person from out of the deposits collected by it, is not sufficient, then Section 3(2) of the KPIDFE Act specifically empowers the attachment of other properties of the Financial Establishment or the personal assets of the Promoters, Partners, Directors, Managers or Members or any other person of the said Financial Establishment. Therefore, for an attachment of the personal properties of the Directors or Promoters, what is required is that there must be a deficit in the properties of the Financial Establishment or properties purchased out of deposits collected by the Financial Establishment. If there is such a deficit, then the personal properties of the Directors and the Promoters, which are not purchased out of the deposits collected from the public, can also be attached. This is the only way in which Section 3 and Section 5 of the KPIDFE Act can be understood. If the contention raised by the appellant is accepted, then the personal properties of the persons responsible for defrauding the public cannot be

attached under the KPIDFE Act at all. This obviously is not the intent of the Statute. If there are sufficient properties belonging to the Financial Establishment or purchased by any other person out of the deposits collected by the Financial Establishment, then such properties have to be attached. However, when such properties are found to be not sufficient, to meet the liabilities of the Financial Establishment, then the personal properties of the Promoters or persons connected with the Financial Establishment can also be attached and that attachment is liable to be made absolute if no sufficient cause can be shown by such Directors, Promoters or other persons.

13. In the instant case, it is the specific case of the Competent Authority that the amount due to depositors is to the tune of Rs.245 Crores. The property of the Financial Establishment has only the value of about Rs.31 Crores. So there is evidently a shortfall of around Rs.213 Crores in the amount required to repay the depositors in the Financial Establishment. In that case, the reading of the enactment would make it clear that the personal properties of the

Directors, Promoters, Partners, Managers or Members or any other person of the Financial Establishment is also liable for attachment. In the instant case, the appellant has no case that he is not a Director of the Financial Establishment.

14. In the facts and circumstances of the instant case, where the appellant was admittedly a Director of the Credit Co-operative Limited and where the property of the Credit Co-operative Limited or the assets purchased out of the funds collected from the depositors having been found insufficient to clear the liabilities, the Special Court was justified in having made the attachment in respect of the self-acquired properties of the appellant absolute. We find no merit in the contentions advanced in the appeal. The appeal fails, and the same is accordingly ***dismissed.***

No orders as to costs.

All pending interlocutory applications shall stand  
*disposed of.*

**Sd/-  
(ANU SIVARAMAN)  
JUDGE**

**Sd/-  
(VIJAYKUMAR A. PATIL)  
JUDGE**

cp/PN