HC-KAR

NC: 2026:KHC:59867-DB
COMAP No. 446 of 2026

CNR: KAHC010573922026

IN THE HIGH COURT OF KARNATAKA AT BENGALURU

DATED THIS THE 28TH DAY OF OCTOBER, 2026

PRESENT

THE HON'BLE MR. JUSTICE D K SINGH

AND

THE HON'BLE MR. JUSTICE H.SHANTHI BHUSHAN

COMMERCIAL APPEAL NO. 446 OF 2026

BETWEEN:

1. SRI SRIDHARA BABU,
   S/O LATE P S RAJU,
   AGED ABOUT 75 YEARS,
   R/AT NO.C-2, CASAVELIE-4,
   NO.12/1, LAVELLE ROAD,
   BENGALURU-560 001.

...APPELLANT

(BY SRI RAJESWARA P N, ADVOCATE)

AND:

Digitally signed by VASANTHA KUMARY B K
Location: HIGH COURT OF KARNATAKA

1. KARNATAKA STATE
   FINANCIAL CORPORATION,
   HAVING ITS HEAD OFFICE AT
   NO.1/1, THIMMAIAH ROAD,
   BENGALURU-560 001,
   REPRESENTED BY THE
   HEAD OF THE DEPARTMENT,
   RECOVERY DEPARTMENT.

2. M/S. PRASHANTH MINERALS
   EXPORTS PRIVATE LIMITED,
   HAVING REGISTERED OFFICE AT
   NO.3-C, SAH JEEVAN APARTMENT,
   219, R.M.V. EXTENSION,
   BENGALURU-560 080,

REPRESENTED BY ITS
MANAGING DIRECTOR
SRI B. UDAY KUMARA.

P S RAJU
SINCE DEAD REPRESENTED BY LRS

SMT. PADMAMMA RAJU
SINCE DEAD REPRESENTED BY LRS

SMT. P R CHANGAMMA
SINCE DEAD REPRESENTED BY LR

3. DR. M GURAPPA,
S/O LATE MUNISWAMY,
AGED ABOUT 90 YEARS,
R/AT NO.110, 4TH BLOCK,
4TH STAGE, 8TH MAIN,
BASAVESHWARANAGAR,
BENGALURU-560 079.

4. SMT. PREMALATHA,
D/O LATE P S RAJU,
MAJOR IN AGE,
R/AT NO.110, 4TH STAGE,
4TH BLOCK, 8TH MAIN,
BASAVESHWARA NAGARA,
BENGALURU-560 079.

5. SMT. P R SWARNALATHA,
D/O LATE P S RAJU,
MAJOR IN AGE,
R/AT NO.110, 4TH STAGE,
4TH BLOCK, 8TH MAIN,
BASAVESHWARA NAGARA,
BENGALURU-560 079.

6. M/S. KARUNAI GRANITES
PRIVATE LIMITED,
HAVING ITS REGISTERED OFFICE

AT NO.183, VAIBHAV, 2ND CROSS,
1ST BLOCK, SBM ROAD,
KORAMANGALA,
BENGALURU-560 034,
ALSO HAVING ITS REGISTERED OFFICE
AT NO.3/55, KARUNAI NAGAR,
JAGADEVIPALAYAM VILLAGE AND POST,
KRISHNAGIRI TALUK AND
DISTRICT-635 023.

…RESPONDENTS

(BY DR. SOMASHEKAR T, ADVOCATE FOR R1;
SMT. RABIYA KHANUM L, ADVOCATE FOR R3 & R4)

THIS COMAP IS FILED UNDER SECTION 13(1A) OF THE COMMERCIAL COURTS ACT, 2015 READ WITH SECTION 32(9) OF THE STATE FINANCIAL CORPORATIONS ACT, 1951, PRAYING TO SET ASIDE THE JUDGMENT DATED 06.07.2026 PASSED IN COMMERCIAL MISC. PETITION NO.12/2020 BY THE XI ADDITIONAL DISTRICT AND SESSIONS JUDGE (DEDICATED COMMERCIAL COURT), BENGALURU RURAL DISTRICT AND CONSEQUENTLY DISMISS COMMERCIAL MISC. PETITION NO.12/2020.

THIS APPEAL, COMING ON FOR ORDERS, THIS DAY, JUDGMENT WAS DELIVERED THEREIN AS UNDER:

CNR: KAHC010573922026

CORAM: HON'BLE MR. JUSTICE D K SINGH
and
HON'BLE MR. JUSTICE H.SHANTHI BHUSHAN

ORAL JUDGMENT

(PER: HON'BLE MR. JUSTICE D K SINGH)

1. The present appeal under Section 13(1A) of the Commercial Courts Act, 2015 read with Section 32(9) of the State Financial Corporations Act, 1951 has been filed impugning the judgment and decree dated 06.07.2026 passed by the Court of XI Additional District and Sessions Judge (Dedicated Commercial Court), Bengaluru Rural District, Bengaluru in Commercial Misc. Petition No.12/2020 filed by the respondent No.1 herein.

2. The respondent No.1-Karnataka State Financial Corporation (KSFC) instituted recovery proceedings under Sections 31(1)(aa) and 32 of the State Financial Corporations Act, 1951 (hereinafter referred to as 'the SFC Act' for the sake of brevity) against M/s. Prashanth Minerals Exports Private Limited, Sri P.S. Raju and M/s. Karunai Granites Private Limited for recovery of a sum of Rs.2,40,64,651/- as on 10.03.2000

together with future interest at the rate of 16.5% per annum with quarterly rests until payment.

3. The appellant is the legal heir of the deceased P.S. Raju, who was the respondent No.2 in the recovery proceedings instituted by the KSFC. The deceased P.S. Raju stood as guarantor inasmuch as he had executed Deeds of Guarantee dated 16.01.1989 and 17.12.1989 unconditionally and irrevocably guaranteeing repayment of all amounts due from M/s. Prashanth Minerals Exports Private Limited. Under the terms of the guarantees, the liability of the guarantor was continuing, joint and several and enforceable immediately upon default by the borrower.

4. The KSFC had sanctioned a term loan of Rs.60,00,000/- vide Sanction Letter dated 20.07.1988 and a further term loan of Rs.13,50,000/- vide Sanction Letter dated 29.11.1989 to M/s. Prashanth Minerals Exports Private Limited for establishment of a medium scale granite processing industry. An equitable mortgage over the immovable properties by depositing the title deeds was created by M/s. Prashanth

Minerals Exports Private Limited, besides the aforesaid deeds of guarantee executed by the deceased P.S. Raju.

5. The Commercial Court, vide impugned judgment and decree dated 06.07.2026, allowed the petition filed under Sections 31(1)(aa) and 32 of the SFC Act with costs and held that all the respondents (including the appellant herein) would be jointly and severally liable to pay to the KSFC a sum of Rs.40,82,49,500.80 (original claim amount with interest and charges from the date of petition till the date of the order) with costs and future interest at the rate of 16.5% per annum compounded quarterly rest basis from the date of filing of the petition till realization.

6. Sri P.N. Rajeswara, learned counsel for the appellant, submits that the legal heirs of the guarantor cannot be made liable except to the extent they inherited the estate/properties of the guarantor. It is submitted that the guarantor cannot bind his legal heirs for repayment of the loans advanced to the defaulter. The legal heirs of the deceased guarantor can jointly be proceeded against only to the extent of the estate or assets

inherited by them from the deceased guarantor. They do not ordinarily incur personal liability merely because they are legal heirs. It is, therefore, submitted that the finding of the Commercial Court holding the legal heirs (including the appellant) of the deceased P.S. Raju jointly and severally liable for payment of the decretal amount is against the basic tenets of law.

7. The learned counsel for the respondent No.1-KSFC does not dispute this legal position. However, he submits that the legal heirs of the deceased P.S. Raju have not furnished the details of the properties inherited by them for executing the decree passed by the Commercial Court.

8. We have considered the submissions. The only point for consideration in this appeal is whether the legal heirs of the deceased guarantor P.S. Raju can be jointly and severally held liable for the entire decretal amount or they would be liable to the extent of the estate/assets inherited by them from the deceased guarantor?

9. As per the settled proposition of law, legal heirs do not ordinarily incur personal liability of the guarantor because they are heirs. The deceased guarantor's outstanding liability may be recovered from the inherited estate but not from the heirs' independent assets, unless they separately assume the liability. The Madras High Court, in the case of ***STATE BANK OF INDIA AND ANOTHER vs JAYANTHI AND OTHERS (AIR 2011 MADRAS 179)***, has held that Section 131 of the Indian Contract Act, 1872 provides that in case of death of the guarantor, the date of guarantee/continuing of the guarantee executed in favour of the Bank stands revoked in respect of the future transactions. However, the liability of the guarantor cannot be extinguished on his death so far the liability which existed on the date of the death of the guarantor. On the death of the guarantor, the liability exists and such liability can be fastened on the estate of the deceased, being inherited by his legal heirs, and the creditor can recover the dues out of the estate of the deceased.

10. The death of the guarantor does not extinguish guarantor's existing liability. The guarantor's personal liability

which has accrued before his death continues against his estate. The legal heirs inherit the estate subject to the liability and they do not receive the inherited estate free from deceased's enforceable obligation. Therefore, the heirs' liability is limited to the inherited estate as held in the case of ***RAM KISHUN AND OTHERS vs STATE OF UTTAR PRADESH AND OTHERS ([2012] 11 SCC 511).***

11. The recovery of public dues must be made strictly in accordance with the procedure prescribed by law. The liability of a surety/guarantor is coextensive with that of the principal debtor. In case there is more than one surety for the same debt, the liability is to be divided equally among themselves.

12. Section 128 of the Indian Contract Act, 1872 provides that the liability of the guarantor/surety is coextensive with that of the principal debtor. Therefore, the creditor has the right to obtain a decree against the guarantor/surety and the principal debtor. Thus, where a borrower defaults after the guarantor's death, the Bank/financial institution may recover the outstanding dues from the deceased guarantor's estate.

The heirs' personal income and independently acquired assets should not be made liable merely by reason of inheritance. The enforcement should be confined to the properties and assets inherited from the deceased, subject to the amount actually due from the guarantor and any applicable defences or statutory charges.

13. In view of the aforesaid position of law, we modify the impugned judgment and decree passed by the Commercial Court and hold that the appellant and the other legal heirs of the deceased P.S. Raju would be liable only to the extent of the estate/properties inherited by them from the deceased P.S. Raju and they are not jointly and severally liable to pay the entire decretal amount to the KSFC i.e., a sum of Rs.40,82,49,500.80 with interest and costs as ordered in the impugned judgment and decree. The legal heirs i.e., the appellant and the other legal heirs should disclose to the Executing Court the properties inherited by them from the deceased P.S. Raju.

14. With the aforesaid clarification and modification in the impugned judgment and decree, we dispose of this appeal.

Sd/-
(D K SINGH)
JUDGE

Sd/-
(H.SHANTHI BHUSHAN)
JUDGE

CT:SN
BKV
List No.: 1 Sl No.: 6