Intent at Inception: A Case Comment on *Delhi Race Club (1940) Ltd. & Ors. v. State of Uttar Pradesh & Anr.*, 2024 INSC 626 (India).

AI DISCLOSURE STATEMENT

Artificial Intelligence (AI) tools were used particularly for language refinement, formatting, grammatical corrections, and enhancing the sequence of this case commentary. All the research relating to the case, analysis and interpretation of the judgment are solely taken from credible sources and verified by the author.

ABSTRACT

This case comment analyses the landmark judgment rendered by the Supreme Court of India in *Delhi Race Club (1940) Ltd. & Ors. v. State of Uttar Pradesh & Anr.*[1] decided on 23rd August 2024. The main research issue highlights the concept of "intent at inception" and examines the lack of judicial uniformity in distinguishing the mutually exclusive offences of criminal breach of trust (Section 406 IPC[2]) and cheating (Section 420 IPC[3]) arising out of commercial transactions. Methodologically, the research assumes a qualitative, doctrinal approach, analytically dissecting the statutory ingredients of Sections 405 and 420 of IPC (now under the Bharatiya Nyaya Sanhita, 2023).

The findings of the Supreme Court reveal that the Hon'ble Court set aside the summoning orders of the lower courts, reasoning that a mere transaction of sale cannot amount to an "entrustment" of property. The primary difference established is that while cheating required a fraudulent or dishonest intent existing from the inception itself, requires lawful entrustment at the outset, followed by a subsequent dishonest misappropriation. Additionally, the Court ruled that both the offences are antithetical and cannot co-exist simultaneously under the same set of facts. At last, the commentary examines the Court's directives to train judicial and police officers to prevent the misuse of criminal machinery for resolving civil disputes.

KEY WORDS

Section 405 and 420, IPC, cheating, criminal breach of trust, intent at inception, mens rea

[1] *Delhi Race Club (1940) Ltd. & Ors. v. State of Uttar Pradesh & Anr.,* 2024 INSC 626, 31 (India).
[2] Indian Penal Code, No. 45 of 1860, § 406 (India).
[3] Indian Penal Code, No. 45 of 1860, § 420 (India).

CASE DETAILS

Title: Delhi Race Club (1940) Ltd. & Ors. v. State of Uttar Pradesh & Anr.

Citation: 2024 INSC 626 (India)

Court: Supreme Court of India, Criminal Appellate Jurisdiction

Date of Decision: 23 August 2024

Judge: Justice J.B. Pardiwala

Justice Manoj Misra

Case Number: Criminal Appeal No. 3114 of 2024

I. Introduction

The distinction between a civil wrong arising out of a commercial transaction and a criminal offence is one of the most misread aspects of Indian jurisprudence. Creditors initiate spiteful criminal prosecutions to recover dues, thereby bypassing the structured civil procedure. In *Delhi Race Club Case,* the Supreme Court addressed this systemic problem, assessing an order where the criminal prosecution was set to recover the payment of a commercial invoice. The foundational aspect of this dispute sets upon the determination of "intent at inception" to determine whether a breach of contract transitions to the criminal offence of cheating.

The present case began upon a private complaint filed by an unpaid seller, the proprietor of a firm supplying horse feed to the Delhi Race Club. Until the year 2017, the financial transaction was regular. However, the subsequent liability of ₹9,11,434/- led the complainant to file a complaint alleging that the club had entered into a criminal conspiracy to defraud him. The complaint was filed alleging violations under Sections 406 and 420 of the Indian Penal Code. However, the Additional Chief Judicial Magistrate, Khurja, Bulandshahr summoned the appellants exclusively under Section 406. Subsequently, the High Court of Judicature at Allahabad refused the quash the summoning order under Section 482 of the CrPC[4], concluding that a direction by the club to transfer invoices to another organisation indicated mala fide intent.

[4] Code of Criminal Procedure, No. 2 of 1974, § 482 (India).

The Supreme Court reversed the High Court's ruling and clarified the distinguishing elements of criminal breach of trust and cheating. The Court highlighted that a failure to make a payment of a commercial debt cannot retrospectively attribute a dishonest intention at the time the transaction was entered into. The present case commentary examines the judicial reasoning and comparative differences underlined by the Court in its ruling.

II. Legal Framework

The statutory architecture governing the present case is incorporated in the provisions of the IPC (now replaced by the Bharatiya Nyaya Sanhita, 2023) and the procedural safeguards grounded in the CrPC (now the Bharatiya Nagarik Suraksha Sanhita, 2023). It is necessary to deconstruct the statutory ingredients to examine the judicial intervention.

A. Criminal Breach of Trust (Section 405/406 IPC)

According to Section 405 of the IPC[5], a criminal breach of trust requires two essential elements:

- A person must be entrusted with property or with any dominion over property
- The person entrusted must dishonestly misappropriate, convert the property to their own use, or use/dispose it in violation of any law.

The criteria here is that ownership of property is not transferred to the accused; rather, the accused simply holds dominion over it in a fiduciary relationship.

B. Cheating (Section 415/420 IPC)

According to Section 415[6], cheating is an offence which occurs when a person deceives someone, and fraudulently or dishonestly induces that person to either deliver any property, or to perform/omit an act which they would not have done otherwise.

Section 420 of the IPC[7] is an aggravated form of cheating. It applies when cheating involves deceiving a person; and dishonestly inducing them to deliver any property to any person, or to alter/destroy the whole or any part of a valuable security. The distinguishing feature of section 420 from 415 is that section 420 is applied when the deception successfully targets property or valuable documents, requiring dishonest intent right from the inception.

[5] Indian Penal Code, No. 45 of 1860, § 405 (India).
[6] Indian Penal Code, No. 45 of 1860, § 415 (India).
[7] Indian Penal Code, No. 45 of 1860, § 420 (India).

C. Procedural Safeguards under Section 202 and 204 CrPC

Under Section 202 of the CrPC[8], when a private complaint is filed, particularly one involving accused residing outside the territorial jurisdiction of the court, the Magistrate is mandated by law to either conduct the enquiry themselves or direct an investigation by a police officer. This section serves the purpose of preventing malicious litigation. It is necessitated by the law that the Magistrate shall apply their judicial mind to the preliminary evidence gathered during this inquiry to determine whether the offenses are *prima facie* apparent.

After conclusion of the inquiry stage, Section 204[9] governs the actual issuance of process. The Magistrate must be satisfied that there are "sufficient grounds for the proceeding"[10] to issue summons or warrant depending on the nature of the case.

III. Judicial Interpretation

In the present case, the Supreme Court's interpretation reveals a mechanical failure by both the Magistrate and the High Court to differentiate between a criminal prosecution and civil liability. Justice Pardiwala assessed the facts precisely, observing that the relationship between both the parties was strictly that of a commercial transaction for sale and purchase.

A. The Misconception of Applying Section 406 IPC to a Commercial Transaction

The Court observed that there has been a blatant legal error in the decision of the Additional Chief Judicial Magistrate, Khurja, Bulandshahr to issue a summons order under Section 406 of the IPC. The Supreme Court reiterated that a commercial transaction is fundamentally antithetical to "entrustment". Relying on *State of Gujarat v. Jaswantlal Nathalal*[11], the Court highlighted that "entrustment" suggests that the person handing over the property remains in its ownership or beneficial interest.

Under sections 20 and 21 of the Sale of Goods Act, 1930[12], in a standard sale of movable goods, the property along with the absolute ownership of the goods is transferred to the buyer immediately upon delivery, irrespective of whether the payment is deferred or postpaid. The buyer cannot be said to be "entrusted" with the property once the ownership is transferred.

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[8] Code of Criminal Procedure, No. 2 of 1974, § 202 (India).
[9] Code of Criminal Procedure, No. 2 of 1974, § 204 (India).
[10] Ibid.
[11] *State of Gujarat v. Jaswantlal Nathalal*, (1968) 2 SCR 408, 411 (India).
[12] The Sale of Goods Act, 1930, S 20, Act No. 3 of 1930

Furthermore, any subsequent failure in payment of the dues merely amounts to a breach of contract which lies under a civil suit for recovery. Therefore, it was held by the Court that the prosecution under Section 406 of the IPC was unsustainable.

B. The Indispensability of Intent at Inception under Section 420 IPC

It was further examined by the Court whether a case under Section 420 IPC could be sustained, even though the Magistrate had failed to issue summons to the accused under the given section. The Court held that the offence of cheating was not made out because the complaint lacked evidence.

The complainant routinely supplied horse feed to the appellants since 1990, and payments were made without any default until 2017[13]. The Court emphasised that if the appellants had an intention to defraud the supplier, they would not have maintained consistent record of payments. The relationship between the parties broke down after 2017 due to a billing dispute of ₹9,11,434/-.

In the present case, the Court reaffirmed the principle which was laid down in *Hari Prasad Chamaria v. Bishun Kumar Surekha*[14], clarifying that simply a failure in a commercial commitment at a later date cannot justify criminal prosecution unless proved that the fraudulent or dishonest intention was present from the inception of the transaction. The subsequent default to make the payment cannot impute a deceptive mindset at the time when the commercial transaction commenced. Acknowledging business failures as an offence sets a dangerous precedent that hinders commerce. Intent at inception is the key element distinguishing commercial default from the offence of cheating.

C. Assessment of Magisterial Delay and Misuse of Criminal Process

The Supreme Court expressed dissatisfaction with the mechanical manner in which the lower courts issued and sustained summons. The Court referred to *Pepsi Foods Ltd. v. Special Judicial Magistrate*[15] and *Mehmood Ul Rehman v. Khazir Mohammad Tunda*[16], that summoning an individual to stand trial in a criminal case is a serious matter impacting a citizen's reputation, dignity and liberty. A Magistrate is required to judicially apply his mind and not treat issuance of process as a routine process based on repetition of allegations by

[13] *Delhi Race Club (1940) Ltd. & Ors. v. State of Uttar Pradesh & Anr.,* 2024 INSC 626, (India).
[14] *Hari Prasad Chamaria v. Bishun Kumar Surekha*, (1973) 2 SCC 823, 825 (India).
[15] *Pepsi Foods Ltd. v. Special Judicial Magistrate*, (1998) 5 SCC 749, 760 (India).
[16] *Mehmood Ul Rehman v. Khazir Mohammad Tunda*, (2015) 12 SCC 420, 429 (India).

preliminary witnesses. Noting the complainant's failure to file a civil suit within the period of limitation, the Court observed that the criminal complaint had been filed to coerce the appellants into a financial settlement, resulting in misuse of the judicial process.

IV. Comparative Analysis

Differentiating Initial Possession and Intent

The fundamental difference between criminal breach of trust and cheating lies the way the accused initially takes possession of the property and when the malafide intention arises. In a criminal breach of trust, the possession of the property is acquired through lawful means, and the dishonest intention develops subsequently. However, in an offence of cheating, the accused has a dishonest intention from the very beginning and the property itself is acquired by the fraudulent inducement to trick the victim into transferring over the property. Therefore, the criminal intention must be present from the inception.

The Nature of the Relationship

The relationship between the parties is determined at the point at which the accused forms the dishonest intention. Criminal breach of trust is inherently rooted in a pre-existing fiduciary relationship, a reliance on confidence, or a contractual agreement under which property is entrusted to the accused while legal ownership remains with the transferor. On the other hand, cheating does not arise from any relationship of trust or fiduciary obligation. Instead, it is founded entirely upon an initial deception, whereby the victim is induced to transfer property that would not have been done in the absence of such deception.

Mutual Exclusivity and Judicial Application

The two offences are antithetical due to these structural differences and thus, cannot co-exist on the same set of facts. In the landmark case of *S.W. Palanitkar v. State of Bihar*[17], the Supreme Court affirmed that while both the offences require a dishonest intention, they occupy entirely distinct legal domains. If a person is induced to hand over the property, it is cheating, whereas if the property is voluntarily placed in someone else’s possession due to trust and then later, the trust is violated, it is criminal breach of trust.

The Supreme Court, in the present case judgment actively criticised the widespread practice among police officers and subordinate courts of registering complaints under both the offences

[17] *S.W. Palanitkar v. State of Bihar*, (2002) 1 SCC 241, 246 (India).

simultaneously. The Court ruled that these two distinct offences cannot survive on identical facts and laid a principle to quash dual First Information Reports (FIRs).

V. Critical Analysis

The Supreme Court's ruling represents a significant attempt to curb the increasing practice of registering ordinary transaction defaults as a criminal offence. The Court reaffirmed that the offence of cheating occurs when the dishonest intention exists from the very beginning. Thus, contractual failures cannot be treated as cheating. The judgment also highlighted the failure of the subordinate courts to distinguish simple transaction of sale from criminal breach of trust.

However, while the ruling provides a shield for corporate bearers against arbitrary vicarious liability, it leaves a practical concern unresolved. Although the Court flagged the misuse of criminal machinery by creditors seeking to recover debts, it refrained from laying down enforceable consequences for complainants who initiate malicious prosecutions. Nevertheless, its mandate to implement police training is a major step towards a more principled and balanced approach to resolve India's commercial disputes.

VI. Conclusion

The *Delhi Race Club Case* is a landmark case against the increasing trend of criminalising civil disputes. The Court prevented an unjustified trial by quashing the summoning order. It was established that a default in the payment does not equate to criminal intent, and such defaults must not be treated as an offence unless a dishonest intent at inception is clearly visible.

The bench directed that copies of the judgment shall be forwarded to the Union Ministry of Law and Justice and the Home Department[18]. This mandate is intended to bring about widespread police reforms.

Therefore, this case protects the corporate executives against unwarranted vicarious liability. The Court has preserved the boundary separating civil breach of contract from criminal liability by reaffirming that intent at inception is an essential test for cheating.

[18] *Delhi Race Club (1940) Ltd. & Ors. v. State of Uttar Pradesh & Anr.,* 2024 INSC 626, 31 (India).