

Judicial Process cannot validate Benami Transactions forbidden by Statute; Courts must pierce the veil of clever drafting & illusionary cause of action: Supreme Court. Direct confiscation consequence after final judicial declaration of a Benami Transaction & retroactive reach of the 2016 Benami Machinery Provisions

Facts of the case

The **Respondent/Plaintiff (D.A. Srinivas)** had instituted a suit on the **Defendant/Appellant (Manjula & others)**, seeking a declaration that he is the owner of the suit schedule properties on the strength of a Will dated 20-04-18, allegedly executed by the husband of Defendant No. 1 and father of Defendant Nos. 2 and 3, namely, K. Raghunath, who died on 04-05-19. The Respondent also sought a declaration for rectification of certain alleged mistakes said to have crept into the schedule appended to the said Will, together with consequential relief of injunction.



Contention of the Respondent/Plaintiff (D.A. Srinivas)

Late K. Raghunath was associated with the family of D.K. Adikesavalu (the Plaintiff's father) and had purchased agricultural land during 2006 and 2011, the sale deeds reflecting that consideration was paid by Raghunath himself. According to the Plaintiff, however, the moneys for these acquisitions had in truth been provided by him; he caused them to be registered in Raghunath's name only because Sections 79A and 79B of the Karnataka Land Reforms Act, 1961 disabled him (as a non-agriculturist whose income exceeded the statutory ceiling) from purchasing agricultural land directly. The Plaintiff claimed that pursuant to certain MoUs, Raghunath was holding the land for him in a 'fiduciary capacity' akin to a trusted employee/agent, and that on 20-04-18 Raghunath executed a registered Will in his favour bequeathing all the suit lands to him, to be held for the benefit of the plaintiff, thereafter converted into non-agricultural lands, and ultimately reconveyed or transferred in favour of the plaintiff for which a consideration of INR 2.50 lakhs per acre was fixed.



Contention of the Appellant/Defendants (Manjula & Others):

According to the Appellants, the properties in question were the self-acquired properties of late K. Raghunath, who had earlier executed a registered Will dated 28-01-16 bequeathing the same in favour of his wife, Appellant No. 1. Based on the said Will, the Appellants caused the revenue records to be mutated in their favour and have since been in peaceful possession and enjoyment of the properties. It is their further case that the Respondent, being aggrieved by the close relationship maintained by the deceased K. Raghunath with the Respondent's father, D.K. Adikesavalu, entered into a conspiracy with others and caused the murder of K. Raghunath for which two FIRs, namely Crime No.0089/2020 dated 05-03-20 and Crime No.0148/2020 dated 15-09-20, were registered against the Respondent and other accused persons. Subsequently, the C.B.I. began investigating the genuineness of the 20.04.2018 Will on the allegation, inter alia, that the stamp papers used had been printed after the death of the testator. The Plaintiff was arrested in connection therewith and stated to be in custody since 22-12-25.

During the pendency of the suit, the Appellants/Defendant Nos. 1 to 3 filed an Application under Order VII Rule 11 (a) and (d) CPC seeking rejection of the plaint on the grounds that it disclosed no cause of action and that the suit was barred by Sections 4 and 6 of the Benami Act. According to the Appellants, the averments contained in the plaint themselves rendered it liable to be rejected at the threshold.

The trial Court, after hearing the parties and upon detailed consideration of the plaint averments as well as the legal principles governing benami transactions, allowed application under Order VII Rule 11(a) and(d) CPC and by order dated 30-10-23, rejected the plaint. Aggrieved thereby, the Respondent/Plaintiff preferred an appeal before the trial court.

Ruling of the Trial court (authority below the HC):

By order dated 30-10-23, the trial Court allowed the application and rejected the plaint, holding that the plaint, on a meaningful reading, disclosed a benami arrangement and was hit by the statutory bar. The Trial Court (initial entry point of a legal dispute where case is first filed) stated as under:

- Firstly, an employer-employee relationship does not, by itself, fall within the recognized categories of fiduciary relationship for the purpose of exemption under the Benami legislation.
- Secondly, the law does not ordinarily recognize a fiduciary relationship between a company and its employees, or between a director and an employee of the company, in the sense that sought to be projected here. Rather, the recognized fiduciary duty is that of a director towards the company since a director is bound to act in the interests of the company.

Further, in the present case, the plaintiff himself pleads that the deceased was an employee in company run by his father. There is no pleading personal relationship between the employer and employee between the plaintiff and the deceased K. Raghunath. Even otherwise, such relationship cannot, in law, be elevated to a fiduciary relationship to attract the statutory exception. Hence, the contention that the matter necessarily requires trial was rejected.

W.r.t. price per acre fixed, the court had held that the transaction is commercial in nature and such an arrangement, involving consideration and reciprocal commercial obligations, cannot be equated with property being held in trust for the benefit of another so as to constitute a fiduciary holding. Consequently, the request for existence of any fiduciary relationship was rejected.

W.r.t. allegation on account of the murder of K. Raghunath with, the Court placed reliance on Section 25 of the Hindu Succession Act provides that a person who commits murder or abets the commission of murder shall be disqualified from inheriting the property of the person murdered, or any other property in furtherance of the succession to which such person committed or abetted the commission of murder. The court stated that no person can be permitted to profit from his own wrong.

Further, this court had held that **the fact w.r.t. murder allegations had been suppressed by the Plaintiff in the pleadings. It has already been held that a person guilty of suppression of material facts is not entitled to be heard and that the plaint is also liable to be rejected.** Since the suppression is apparent on a plain reading of the plaint, it is deemed unnecessary to relegate the parties to the trial Court again for adjudication of any question of law as a preliminary issue.

Ruling of the High Court:

Thereafter, First Appeal No. 2216 of 2023 before the High Court was allowed by the judgment dated 22-02-24 wherein it was held that the plaint did not attract the provisions of the Benami Act and that the plaint, therefore, could not have been rejected at the threshold. The HC also held that the discrepancies in the record were glaring, and the fact of the accident did not stand proved. Consequently, the High Court set aside the order of the trial Court and restored the suit to file for adjudication on merits, against which the present Civil Appeal has been filed by the Appellants /Defendants before this Court.



Final Decision of this Court (Supreme Court):

The Court ruled as under:

- The object of entering into MOUs was to circumvent the provisions of the Karnataka Land Reforms Act, 1961, particularly sections 79A and 79B thereof, which imposed financial restrictions on persons or families seeking to purchase agricultural land. The provisions also required that the holder personally cultivate the lands.
- The pleadings further disclose that since the **Plaintiff or his company was disentitled from directly purchasing the lands, a mechanism was devised whereby the Plaintiff allegedly funded the purchase in the name of another, causing the lands to be converted for non-agricultural use, and thereafter sought transfer in his own favour.** The Plaintiff also claims to have paid the entire consideration. Such an arrangement was plainly intended to defeat the statutory mandate of the Karnataka Land Reforms Act and is therefore hit by section 23 of the Contract Act.
- The transaction, **in substance, bears all the indicia of a benami arrangement of the kind sought to be prohibited under the Benami Act. What cannot be done directly cannot be permitted to be achieved indirectly. The Plaintiff, through careful drafting, seeks to portray the suit as one founded solely on the Will.** Though the expression 'benami' is not used in the plaint, meaningful and substantive reading unmistakably discloses such an arrangement. It is trite that substance must prevail over form. Courts are not bound by mere labels in pleadings and must read between the lines to ascertain the true nature of the transaction. The plaint, therefore, was wholly unsustainable in law, and the trial Court was justified in rejecting the same.

- Even though the plaint is liable to be rejected, the appellants (sons of the deceased) cannot, for that reason alone, claim entitlement to the suit schedule properties. Since the said property under consideration were the self-acquired properties of the deceased K. Raghunath, who through a registered Will dated 28-1-16 bequeathed the same in favour of his wife, pursuant to which the appellants claim to have secured mutation in the revenue records and to be in peaceful possession thereof.
- SC also held that the initial transactions of purchase were benami transactions. The purchase of the properties by K. Raghunath is not protected by any of the exceptions contained in sections 3 or 4 of the Benami Act, either before or after amendment, and

the object of the MOUs relied upon is illegal and void. Equally, the appellants/defendants, claiming as legal heirs, are also not entitled to derive any advantage therefrom, having failed to establish that the suit properties were acquired from the independent funds of the deceased.

- SC also stated that it is unnecessary to transfer the case to the lower authority once a competent judicial determination declaring the transaction benami has attained finality. Accordingly, the judgment dated 22-02-24 passed by the High Court in R.F.A. No. 2216 of 2023 (DEC/INJ) was set aside and the CG was directed to appoint an Administrator and take over the suit properties, in accordance with law, within a period of eight weeks from the date of receipt of this judgment.

W.r.t. the retrospective applicability of the Benami Act 2016, SC stated that ordinarily, every statute is presumed to be prospective unless the statute itself expressly or by necessary implication provides otherwise. To determine the true temporal operation of a statute, the object of the enactment must be considered. If the purpose of the amendment is to cure a defect, remove an omission, substitute appropriate provisions earlier lacking, effectively implement the original legislative intent, or if the amendment is clarificatory, declaratory or validating in nature, it may legitimately receive retrospective operation.

SC stated that applying the above principles, the 2016 amendments were enacted to cure the mischiefs and omissions in the original legislation, which had become largely unworkable in practice. The legislative intent was to make the statute effective is manifest. The prohibition against benami transactions already existed and no period of limitation was prescribed either under the original Act or under the amended Act for initiating action against benami property or against persons involved in such transactions. Any such action for confiscation or prosecution may therefore be taken whenever the transaction comes to the notice of the competent authorities.

The amended provisions merely introduced complete machinery for attachment, adjudication and appeals. Though the attachment and adjudication were elaborately structured for the first time, these provisions are essentially procedural and regulatory, intended to ensure fairness and avoid arbitrary action before confiscation. Unless the amendment is given retroactive operation, the very object of making the legislation workable would be defeated.

The appellate remedies introduced are beneficial safeguards providing checks against arbitrary exercise of power, and beneficial procedural provisions ordinarily operate retrospectively. So far as penal consequences are concerned, enhanced punishment cannot be retrospectively imposed; however, the machinery provisions enabling adjudication, confiscation and enforcement, being curative and procedural, can apply retrospectively.

Accordingly, SC hold that the 2016 amendments, insofar as they are declaratory, procedural, curative and machinery-oriented, operate retrospectively, while penal provisions creating new offences or enhancing punishment can operate only prospectively.

Source : Supreme Court in the case of Manujla & Others (Appellant) vs R. Mahadevan J. vide Civil Appeal No. 7370 of 2026 on May 08, 2026.



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