
CASE NOTE

Case Title: Bhalchandra Dinkar Gondekar & Ors. versus Reserve Bank of India through Governor & Ors.

Citation: 2026 SCC OnLine Bom 2089

Case Number: WP-8534-22 GRP

Date of Decision: 09.03.2026

Court: Bombay High Court

Coram: Hon'ble Mrs Justice Bharati Dangre and Hon'ble Mrs Justice Manjusha Deshpande

Introduction:

The present matter arose out of a batch of writ petitions filed before the Bombay High Court, jointly assailing the constitutional validity and statutory of the Punjab and Maharashtra Co-operative Bank Ltd. (Amalgamation with Unity Small Finance Bank Ltd.¹) Scheme, 2022². The Scheme was formulated by the Reserve Bank of India (RBI) in the exercise of its powers under Section 45 of the Banking Regulation Act, 1949³, and thereafter sanctioned by the Central Government through a notification dated January 25, 2022. The petitioners alleged that the Scheme violated fundamental rights guaranteed under the Constitution of India and exceeded the statutory authority of the RBI in framing terms of repayment and introducing classification of depositors, alien to existing law.

Facts:

Punjab and Maharashtra Co-operative Bank Ltd. ('PMC Bank') was a multistate scheduled urban co-operative bank based in Mumbai. Its financial collapse came to light in September 2019 when the statutory inspection by RBI revealed grave irregularities. This exposed the exposure of bank to the Housing Development and Infrastructure Ltd. (HDIL) group, owned by Rakesh Wadhawan and Sarang Wadhawan, had been systematically concealed and underreported to the regulator. By the time the scale of the fraud was ascertained, PMC Bank's net worth had fallen to 6,737.61 crore, its Capital to Risk Assets Ratio (CRAR) had turned severely negative, and nearly 83% of its total loan book was classified as non-performing. Deposit erosion as of March 31, 2019, stood at 45.43%.

In response, the RBI imposed All Inclusive Directions under Sections 35-A and 56 of the BR Act, restricting withdrawals and curtailing banking operations to preserve the bank's residual assets. The Board of Directors was subsequently superseded under Section 36-AAA of the BR Act, and an Administrator was appointed. The RBI pursued every viable solution, including external capital infusion, merger with a solvent bank, NPA recovery, and reconstruction, but none proved feasible. Expression of Interest from Unity Small Finance Bank Ltd. remained as the only workable proposal.

A draft of the scheme was circulated publicly on November 22, 2021, inviting suggestions and objections from depositors and other stakeholders. After considering the responses received, the finalised Scheme was sanctioned by the Central Government on January 25, 2022. Under the Scheme, insured deposits up to INR 5 lakh per depositor were to be addressed through the Deposit Insurance and Credit Guarantee Corporation (DICGC) mechanism, while amounts beyond the insured threshold were to be recovered in a phased manner over a period extending up to ten years, with no interest

¹ Hereinafter, referred to as 'Unity SFB'

² Hereinafter, referred to as the 'Amalgamation Scheme'

³ Hereinafter, referred to as the 'BR Act'

during the first five years and a nominal rate of 2.75% per annum thereafter. The Scheme also introduced a distinction between ‘retail’ and ‘institutional’ depositors, resulting in differential treatment of depositor categories.

Issues:

- (i) Whether the Amalgamation Scheme was arbitrary or violative of Articles 19(1)(g) or 300A of the Constitution of India?
- (ii) Whether the classification of depositors into retail and institutional categories was violative of Article 14 of the Constitution?
- (iii) Whether the RBI and DICGC acted within their respective statutory mandates under the Banking Regulation Act, 1949 and the Deposit Insurance and Credit Guarantee Corporation Act, 1961?

Arguments:

Petitioner

The petitioners challenged the Scheme on multiple constitutional and statutory grounds. They contended that the staggered repayment structure holds depositors’ principal for up to a decade, providing no interest for the first five years and a nominal 2.75% per annum thereafter. This amounts to deprivation of property without adequate justification, in contravention of Article 300A of the Constitution. It was further argued that the freezing of depositor funds impaired the right to carry on trade and occupation guaranteed under Article 19(1)(g).

On the question of classification, the petitioners submitted that the differentiation of depositors into ‘retail’ and ‘institutional’ categories had no basis in either the BR Act or the DICGC Act, 1961. This distinction, they argued, arbitrarily excluded co-operative credit societies, provident fund trusts, and analogous bodies from the insurance protection statutorily available to them, thereby violating the constitutional guarantee of equality under Article 14. It was also urged that the RBI had exceeded its powers under Section 45 of the BR Act by unilaterally devising repayment terms that subordinated depositor claims.

Respondent

The RBI and the Union of India defended the Scheme in its entirety, placing before the Court a comparative analysis of the available alternatives. They submitted that liquidation of PMC Bank was the only real and feasible option, which would have capped every depositor’s recovery at INR 5 lakh under the DICGC insurance ceiling. The Scheme assured 100% return of the principal to all depositors through a structured time frame, and as of February 2, 2026, INR 4,852.33 crore had already been disbursed.

The respondents further relied upon Unity SFB’s demonstrated financial growth as evidence of the operational success, as its balance sheet expanded from INR 11,946 crore in March 2023 to INR 19,152 crore in March 2025, net profit rose from INR 35 crore to INR 482 crore, and its branch network grew to 291 branches across 20 states. On the statutory questions, it was submitted that DICGC’s liability had not been diluted or altered and that the Cash Reserve Ratio⁴ is a prudential regulatory requirement applicable to any going-concern bank and cannot be redirected toward

⁴ Hereinafter referred to as ‘CRR’

depositor repayments, and that Section 45 of the BR Act expressly permits reduction of creditor and depositor rights within an amalgamation scheme.

Judgement

The Division Bench dismissed all seven writ petitions and declined to interfere with the Amalgamation Scheme. The Court found no legal misconduct, procedural irregularity, or constitutional issue in the process by which the Scheme was formulated or in the terms it prescribed. The Bench upheld the Scheme in its entirety, concluding that the RBI had acted in a prompt and responsible manner. It was within its statutory mandate in directing PMC Bank towards a resolution that safeguarded depositor interests to a great extent. The Court specifically observed that had PMC Bank been liquidated instead, depositors would have been confined to a recovery of no more than INR 5 lakh each, rendering the structured repayment arrangement a materially superior outcome for the depositor body at large. It reiterated that policy decisions in matters of economic and financial matters warrant limited judicial interference unless shown to be purely arbitrary or actuated by extraneous considerations.

Analysis

This judgment reaffirms the judiciary's restrained posture in reviewing decisions by specialised financial regulators on matters of economic policy. The Court applied the established principle that regulatory determinations falling within the domain of financial expertise are ordinarily beyond the reach of judicial substitution of judgment unless shown to be patently unreasonable, arbitrary, or founded on irrelevant considerations.

The petitioners' challenge to the 'retail' versus 'institutional' depositor classification was the contention holding force before the Court. The DICGC Act does not recognise these categories, and the practical effect of the classification in producing differential payout outcomes raised a statutory question about the outer limits of the RBI's powers in drafting the scheme. However, the Court found that Section 45 of the BR Act examined a reduction in the rights of depositors and creditors within a reconstruction or amalgamation scheme, thereby providing sufficient legislative footing for the Scheme's terms even where its classification framework departed from the DICGC's own language. The Court's reasoning on the CRR issue is instructive and correctly observes that CRR is a prudential tool to ensure the ongoing liquidity of a functioning bank and cannot be converted into a payment fund for creditors without undermining the very solvency norms that banking regulation is designed to uphold.

The decision carries implications for depositors across India's urban co-operative banking sector, which has been vulnerable to governance failures and concentrated credit risks. The judgment reinforces that crisis-resolution in the banking sector must weigh individual depositor interests against systemic stability, and that courts will sustain regulatory action that pursues this balance through a transparent, public-oriented process. The case also underscores a legislative gap; the DICGC framework does not clarify how institutional depositors, including provident funds, trusts and co-operative credit societies, are to be treated in a bank failure scenario. The decision may prompt Parliament to revisit this statutory lacuna and ensure that smaller institutional depositors receive protection equivalent to that afforded to individual retail depositors under the deposit insurance regime.