



JSA Prism Employment Law

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The High Court of Madras upholds an employer's right to cancel conditional employment offers based on material discrepancies

In an important ruling that underscores the importance of honesty and transparency in the hiring process, the Hon'ble High Court of Madras ("Madras HC") in *P. Karthikeyan vs. The General Manager, State Bank of India and Ors.*¹ has upheld the cancellation of the appointment of a selected candidate ("Candidate") due to adverse credit entries found in his TransUnion CIBIL Limited ("CIBIL") Report ("CIBIL Report") dated March 12, 2021 and on account of false and untrue declarations made by the Candidate.

This ruling affirms the lawful right of an employer to revoke conditional employment offers, when candidates fail to meet the stipulated conditions or otherwise conceal material facts.

Brief facts

The instant case arises out of a writ petition filed by the Candidate whose appointment was revoked by the employer bank. The employer bank had issued a notification dated July 27, 2020, inviting applicants for the post of a circle based officer ("Recruitment Notification").

The Recruitment Notification clearly specified that: "*Candidates with record of default in repayment of loans/credit card dues and/or against whose name adverse report of CIBIL or other external agencies are available are not eligible for appointment.*" It further stated that "*Candidates against whom there is/are adverse report regarding character & antecedents, moral turpitude are not eligible to apply for post.*"

The Candidate who successfully cleared the selection process was issued an appointment order dated March 12, 2021. As part of the pre-appointment verification process, the employer bank obtained the Candidate's CIBIL Report, which was reviewed and verified by them. Following this, the employer bank identified concerns regarding the Candidate's credit history, particularly noting instances of delayed repayment of past loans as reflected in his CIBIL Report.

Although the Candidate submitted an explanation clarifying the personal circumstances surrounding such past defaults, the employer bank issued an order cancelling the Candidate's appointment, citing adverse credit history and on account of the fact that the Candidate had given false and untrue declarations.

¹ W.P.No. 11122 of 2021 and WMP.No. 11768 of 2021

Issue

The core issue for consideration before the Madras HC was whether the cancellation of the Candidate's appointment on the grounds of poor credit history and an adverse CIBIL Report constituted a valid and legally sustainable ground for disqualification.

Analysis and key observations

Interpretation of eligibility clause

Although the Candidate asserted that as of the date of the Recruitment Notification, he had no outstanding loans or credit card dues, the Madras HC noted that the Recruitment Notification had explicitly cautioned applicants to carefully ensure their eligibility before applying. One of the key eligibility conditions thereunder categorically disqualified candidates with any record of loan defaults, adverse credit reports, or negative financial indicators. The Candidate's CIBIL Report, obtained during the verification process, revealed a poor credit history, including delayed repayment of loans multiple times and irregularities in credit card usage.

The Madras HC interpreted the eligibility criteria in the Recruitment Notification to mean that the requirement was not merely the repayment of loans as on the date of the notification. Rather, it was about maintaining a consistent record of loan repayment without any default or having an adverse credit report from CIBIL or other external agencies. This distinction is critical, as the emphasis lies on the candidate's financial discipline and overall creditworthiness, not just on a snapshot of loan status as on the job application date.

Internal guidelines and exceptions

The Madras HC also referred to a Circular dated March 20, 2021, issued by the employer bank ("**Circular**"), which provided clarification on handling cases involving default or adverse remarks. This Circular outlined certain exceptions where defaults had been regularised or rectified prior to joining and allowed candidates to join in exceptional circumstances. These included situations such as overdue credit card dues under INR 5,000 (Indian Rupees five thousand) arising from disputes or litigation, and overdue equated monthly instalments (EMIs)/instalments not exceeding 1 (one) instalment. This letter essentially established a narrow window of leniency while underscoring the importance of financial discipline.

Findings from the CIBIL Report

The employer bank argued that the Candidate's CIBIL Report was severely poor, showing multiple defaults in loan repayments, which reflected a troubling financial history. The Candidate had 9 (nine) irregular credit facilities and more than 10 (ten) credit inquiries between 2016 and 2021, ranging from small loans of INR 1,000 (Indian Rupees one thousand) to larger sums of INR 30,00,000 (Indian Rupees thirty lakh). The employer bank regarded this pattern as a serious risk factor, given the nature of the banking job that involves handling of public funds.

Candidate's explanation and court's view

Although the Candidate explained that the personal loans had been availed for his brother's business and that the defaults were on account of an unforeseen accident involving his brother, the employer bank and the court found this explanation unpersuasive due to the prolonged history of multiple defaults over an extended period.

Relevant Supreme Court precedents

The Madras HC also cited the Supreme Court judgment in *Chief Manager, Punjab National Bank and Anr. vs. Anik Kumar Das*², emphasising that a candidate who participates in a recruitment process in accordance with the published notification cannot later argue for a different interpretation of the eligibility criteria, especially when they have not legally challenged the clause itself. The Madras HC also referred to the Supreme Court judgment in *Yogesh Kumar and Ors. vs. Government of NCT of Delhi and Ors.*³, which held that the recruitment to public service must strictly adhere to the terms set out in the advertisement and the applicable recruitment rules. Any deviation from these rules may result in the selection of ineligible candidates and unfairly exclude other eligible candidates who could have competed for the post.

Assessment of the employer's actions

The employer bank also emphasised that the issuance of the appointment letter did not confer a vested right to employment, as the appointment was expressly made subject to verification of various credentials, including the CIBIL Report, at the time of joining. The Madras HC found the employer's stand to be both reasonable and legally tenable. Accordingly, it noted that the criteria requiring a clean repayment record and a satisfactory CIBIL Report served as a clear and necessary purpose. In the banking sector, where employees are expected to handle public money responsibly, financial discipline is not only relevant but essential. A candidate who has demonstrated poor credit behaviour and frequent borrowing tendencies may not inspire the level of trust required in such roles and cannot be entrusted with such responsibilities without risking inefficiency or misconduct.

No discrimination found

Regarding the Candidate's claim of discriminatory treatment, the Madras HC found that the employer bank had consistently applied the standards outlined in the Circular. Only those candidates who met the conditions laid out in the Circular, such as a default of not more than 1 (one) instalment, were previously considered for appointment. The Candidate, having defaulted on more than 1 (one) instalment, clearly fell outside this bracket.

Final ruling

Ultimately, the Madras HC dismissed the writ petition, holding that the Candidate's poor credit history, supported by his own admissions and a pattern of defaults besides the false and inaccurate declarations made by him, provided sufficient grounds for the employer to cancel his appointment order.

Conclusion

In many organisations, it is a standard practice to include clauses that require candidates to disclose material information such as financial standing or adverse credit histories before finalising employment. This is especially common for roles that require handling financial assets, budgets, or sensitive monetary information. A history of defaults, insolvency, or poor credit behaviour may indicate a potential risk for the employer, making such candidates less suitable for positions that demand high levels of financial responsibility. The Madras HC's affirmation that employers have the legal right to revoke such offers when these conditions are not met or when false information is provided, offers a much-needed assurance.

It clarifies that employers are protected from legal challenges when acting in good faith to uphold the integrity of their recruitment process, ensuring that only candidates who meet the stipulated criteria are employed. Moreover, it

² (2021) 12 SCC 80

³ (2003) 3 SCC 548

emphasises that honesty and transparency are fundamental expectations in an employment relationship, particularly for sensitive roles including those involving financial responsibilities.

This judgment strengthens an employer's authority to enforce pre-employment conditions and take corrective actions where necessary, thereby safeguarding the organisation's interests, reputation and operational integrity. Having said that, in order to ensure a fair and legally sound hiring process, it is essential that employers clearly specify and communicate any applicable eligibility criteria in their job advertisements/postings as well as at the outset of the recruitment process. The conditional nature of the offers should also be made unambiguously clear, leaving no room for ambiguity about the terms and conditions attached to continued employment. Candidates should also be kept informed of the consequences of failing to meet any pre-conditions or providing false information.

Ultimately, transparency is key in ensuring a fair and legally sound hiring process. While for employers, clearly communicating the conditional nature of the offer along with the specific eligibility criteria helps withstand legal scrutiny; for employees, open disclosure of relevant information and understanding the conditions attached to their employment will help foster trust and accountability.

Employment Practice

JSA has a team of experienced employment law specialists who work with clients from a wide range of sectors, to tackle local and cross-border, contentious and non-contentious employment law issues. Our key areas of advice include (a) advising on boardroom disputes including issues with directors, both executive and non-executive; (b) providing support for business restructuring and turnaround transactions, addressing employment and labour aspects of a deal, to minimise associated risks and ensure legal compliance; (c) providing transaction support with reference to employment law aspects of all corporate finance transactions, including the transfer of undertakings, transfer of accumulated employee benefits of outgoing employees to a new employer, redundancies, and dismissals; (d) advising on compliance and investigations, including creating compliance programs and policy, compliance evaluation assessment, procedure development and providing support for conducting internal investigations into alleged wrongful conduct; (e) designing, documenting, reviewing, and operating all types of employee benefit plans and arrangements, including incentive, bonus and severance programs; and (f) advising on international employment issues, including immigration, residency, social security benefits, taxation issues, Indian laws applicable to spouses and children of expatriates, and other legal requirements that arise when sending employees to India and recruiting from India, including body shopping situations.

JSA also has significant experience in assisting employers to ensure that they provide focused and proactive counselling to comply with the obligations placed on employees under the prevention of sexual harassment regime in India. We advise and assist clients in cases involving sexual harassment at the workplace, intra-office consensual relationships, including drafting of prevention of sexual harassment (POSH) policies, participating in POSH proceedings, conducting training for employees as well as Internal Complaints Committee members, and acting as external members of POSH Committees.

This Prism has been prepared by:



Preetha Soman
Partner



Rebecca Thomas
Associate



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