

2025 LiveLaw (SC) 865

**IN THE SUPREME COURT OF INDIA
CRIMINAL APPELLATE JURISDICTION**

ARAVIND KUMAR; J., SANDEEP MEHTA; J.

Special Leave Petition (Criminal) No. 8050 of 2025; August 11, 2025

GIAN CHAND GARG versus HARPAL SINGH & ANR.

Negotiable Instruments Act, 1881 (NI Act) - Whether a compromise reached between parties in a case under Section 138 of NI Act can be a basis for setting aside a conviction, especially after the matter has been upheld by multiple courts – Held, the offence under Section 138 of the NI Act is ‘mainly civil wrong’ and is specifically made compoundable under Section 147 of NI Act - A settlement, once voluntarily entered into by the parties, allows them to save themselves from the litigation process, and courts should not override such a compromise - The compromise deed dt. April 6, 2025 and an affidavit from respondent confirmed that a settlement had been reached - Respondent had accepted payment in full and final settlement of debt - Since a voluntary compromise was reached, the proceedings under Section 138 of NI Act could no longer be sustained and conviction had to be set aside - Set aside High Court’s order. Appeal allowed. [Relied on *Meters and Instruments Private Limited & Anr. v. Kanchan Mehta* 2018 1 SCC 560; *P. Mohanraj & Ors. v. M/s Shah Brothers Ispat Pvt Ltd.* 2021 6 SCC 258; *B.V. Sessaiah v. State of Telangana & Anr.* 2023 SCC OnLine SC 96; Paras 6-12]

[Arising out of impugned final judgment and order dated 27-03-2025 in CRR No. 2563/2010 passed by the High Court of Punjab & Haryana at Chandigarh]

For Petitioner(s) Mr. Aftab Ali Khan, Adv. Ms. Arna Das, Adv. Mr. Naresh Kumar, AOR

For Respondent(s) Mr. Jay Kishor Singh, AOR Dr. Rishi Pal Singh Garttan, Adv.

ORDER

1. Heard. Leave Granted.

2. The present appeal arises out of the Impugned Order dated 27.03.2025 passed by the Punjab and Haryana High Court in Criminal Revision Petition No. 2563 of 2010 by which High Court has affirmed the conviction and sentence of the appellant under section 138 of the Negotiable Instruments Act, 1881 (hereinafter to be referred as “NI Act”) rendered by the court of Judicial Magistrate First Class (JMFC) vide its order dated 21.04.2010 in Criminal Case No. 90 of 2009 and upheld by the Additional Sessions Judge in Criminal Appeal No. 67 of 2010 vide order dated 14.09.2010.

3. The material facts relevant for the disposal of present appeal are set forth hereunder:

3.1 The respondent No.1 herein filed a complaint under the NI Act against the appellant, alleging that he had borrowed a sum of Rs.5,00,000/-, and for repayment of the said debt, had issued a cheque (Ex. C-1), which, on presentation, was returned with an endorsement “funds insufficient” (Ex. C-2), after issuing the legal notice (Ex. C-4). The complaint came to be filed before the jurisdictional Magistrate. After trial, the appellant was convicted and sentenced to undergo simple imprisonment for a period of six months and to pay a fine of Rs.1,000/-, with a default sentence of fifteen days’ simple imprisonment. The learned Additional District Judge affirmed the same in the appeal filed by the accused-appellant, and the revision filed before the High Court also came to be dismissed by the impugned order. Hence, the present appeal.

3.2 After the dismissal of the revision petition, the parties arrived at a compromise/settlement on 06.04.2025, whereunder the first respondent (complainant) herein indicated his no objection to the appellant filing an application for altering the order of the revisional court and to seek acquittal. In this background, the appellant preferred an application in the revision, CRM No.15127/2025, seeking modification of the order dated 27.03.2025 referred to supra, whereunder the revision petition by the accused-appellant had been dismissed. The High Court, by order dated 09.04.2025, dismissed the said application on the ground of non-maintainability.

4. We have heard the learned counsels appearing on the behalf of the appellant and respondent no. 1 and perused the materials on record. However, none entered appearance on behalf of respondent No. 2-State of Haryana, may be for the reason that settlement has arrived between the parties.

5. Be that as it may, at the outset, it is apposite to advert to settled position of law enunciated by this court with regard to nature of proceedings under section 138 NI Act and the legal consequences that ensues upon a compromise being entered into between the parties.

6. This court in **M/s. Meters and Instruments Private Limited & Anr. v. Kanchan Mehta 2018 (1) SCC 560** held that the nature of offence under section 138 of the NI Act is a mainly a civil wrong and has been made specifically compoundable by section 147 of the NI Act which was inserted by the 2002 amendment to the said Act. The relevant observations have been extracted for reference:

“This Court has noted that the object of the statute was to facilitate smooth functioning of business transactions. The provision is necessary as in many transactions’ cheques were issued merely as a device to defraud the creditors. Dishonor of cheque causes incalculable loss, injury and inconvenience to the Vide the Banking, Public Financial Institutions and Negotiable Instruments Laws (Amendment) Act, 1988 payee and credibility of business transactions suffers a setback. At the same time, it was also noted that nature of offence under Section 138 primarily related to a civil wrong and the 2002 amendment specifically made it compoundable.”

7. It is also apposite to reiterate the observations in **P. Mohanraj & Ors. v. M/s. Shah Brothers Ispat Pvt. Ltd. (2021) 6 SCC 258** wherein this court referred the offence under section 138 NI Act as a “Civil Sheep” in “Criminal Wolf’s Clothing” which meant issues agitated by the parties under the said provision are of private nature which are brought within the sweep of criminality jurisdiction in order to strengthen the credibility of the negotiable instruments.

8. Further in **M/s. Gimpex Private Limited v. Manoj Goel (2021) SCC OnLine SC 925** this court took into consideration the effect of settlement arrived between the parties and observed that:

“38. When a complainant party enters into a compromise agreement with the accused, it may be for a multitude of reasons- Higher Compensation, faster recovery of money, uncertainty of trial and strength of complaint, among others. A complainant enters into a settlement with open eyes and undertakes the risk of the accused failing to honour the cheques issued pursuant to the settlement, based on certain benefits that the settlement agreement postulates. Once parties voluntarily entered into such an agreement and agree to abide by the consequence of non-compliance of the settlement agreement, they cannot be allowed to reverse the effects of the agreement by pursuing both the original complaint and the subsequent complaint arising from such non-compliance. The Settlement agreement subsumes the original complaint.....”

9. In ***B.V. Sessaiah v. State of Telangana & Anr. (2023) SCC OnLine SC 96*** this court was of the view that when parties enter into an agreement and compound the offence, they do so to save themselves from the process of litigation and when such a step is taken by the parties, the law very well allows them to do so. Hence, the courts cannot override such compounding and impose its will.

10. Therefore, it is very clear that although dishonour of cheque entails criminal consequence, the legislature by virtue of section 147 of the NI Act has made it compoundable notwithstanding the provisions of the Code of Criminal Procedure, 1973 and the same can be compounded at any stage of the proceedings especially when the parties have themselves arrived at a voluntary compromise.

11. In the present case, the compromise deed dated 06.04.2025 and the Affidavit on behalf of the Respondent No.1 dated 16.04.2025 is annexed to the present petition as Annexure P3 and P6, respectively. Upon careful perusal of the recitals contained in the said documents, it clearly emerges that the Respondent No.1 in consideration of Two Demand Drafts bearing no(s). 004348 dated 04.04.2025 and 004303 dated 11.02.2025 for Rs. 2.5 lakhs each along with three cheques bearing no(s). 354412 dated 10.05.2025, 354413 dated 10.06.2025 and 354414 dated 10.07.2025 of Rs. 1 lakh each has arrived at a compromise with appellant without any coercion and at his own will and voluntarily. Once the complainant has signed the compromise deed accepting the amount in full and final settlement of the default sum the proceedings under Section 138 of the NI Act cannot hold water, therefore, the concurrent conviction rendered by the Courts below has to be set-aside.

12. Therefore, in the light of aforesaid discussion, we are of the considered view that the present appeal deserves to be allowed. Accordingly, the same stands **Allowed** and consequently the impugned order dated 27.03.2025 in CRR 2563 of 2025 is **set aside** and the order of conviction and sentence imposed on appellant is quashed.

13. Pending applications if any, stands disposed of. No order to cost.