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CONVICTION CANNOT BE SUSTAINED AFTER A SETTLEMENT

The Hon'ble Supreme Court (“SC”) in the case of *Gian Chand Garg case*¹ opined on the compoundable nature of offences under Section 138 of the Negotiable Instruments Act, 1881 (“Act”). The SC held that despite conviction of the Accused (“Gian Chand Garg”), if the Complainant (“Harpal Singh”) has been duly compensated and has voluntarily entered a settlement, then such compromise ought to be honoured, and courts must set aside the conviction.

BRIEF FACTS:

Gian Chand Garg had issued a cheque of ₹5,00,000 to Harpal Singh as repayment for the debt borrowed by him. This cheque returned dishonored with the endorsement “insufficient funds.” After due legal notice and trial, the Judicial Magistrate convicted Gian Chand Garg under Section 138 of the Act, sentencing him to six months’ simple imprisonment and imposing a fine of ₹1,000. Aggrieved by the order, Gian Chand Garg appealed before the Additional District Judge (“ADJ”), however, his conviction was upheld by the ADJ and the following revision filed before the High Court (“HC”) also came to be dismissed.

Subsequently, the Parties arrived at a compromise wherein Harpal Singh stated that he had no objection to Gian Chand Garg’s acquittal as he has received the full payment in the settlement. Consequently, an application was filed before the HC to modify the order of conviction, but it was dismissed for non-maintainability. Hence, this present appeal was preferred before the SC.

PARTIES CONTENTIONS:

- Gian Chand Garg contended that a valid compromise had been reached between the parties after full payment of the defaulted amount.
- Harpal Singh declared no objection to the quashing of the conviction and sentence and filed the documents confirming full and final settlement.²

SC’s JUDGEMENT & REASONING:

¹ *Gian Chand Garg v. Harpal Singh and Another*. (CRL.) NO.8050/2025. Click here for a [copy](#).

² Paragraph No. 11 of the Judgement

SC allowed the appeal and quashed the conviction and sentence. While doing so, it adverted to the settled position of law enunciated by the SC in various other precedents regarding the nature of proceedings under the Act and the consequences that that ensue upon a compromise being entered into between the parties:

- In *M/s. Meters and Instruments Pvt. Ltd case*:³ It held that the offence under Section 138 is primarily civil in nature and has been made compoundable under Section 147 of the Act through the 2002 amendment.
- In *P. Mohanraj & Ors. case*:⁴ It described Section 138 as a “civil sheep in criminal wolf’s clothing”, meant to protect financial transactions and strengthen credibility of negotiable instruments.
- In *M/s. Gimpex Pvt. Ltd. Case*:⁵ It emphasized that a settlement agreement subsumes the original complaint. A complainant enters a settlement with open eyes and undertakes the risk of the accused failing to honor the cheques issued pursuant to the settlement and hence 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.
- In *B.V. Seshaiiah case*:⁶ It held that courts cannot override a valid compounding agreement as these agreements serve the larger interest of reducing litigation.

Therefore, in the absence of any continuing grievance or dispute remaining between the parties, the finding of conviction was set aside, and Gian Chand Garg was acquitted.

This *Counselence Connect* contains information in a nutshell on a recent change in law.

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³ M/s. Meters and Instruments Pvt. Ltd. v. Kanchan Mehta | 2018 (1) SCC 560

⁴ P. Mohanraj & Ors. v. Shah Brothers Ispat Pvt. Ltd (2021) | 6 SCC 258

⁵ M/s. Gimpex Pvt. Ltd. v. Manoj Goel (2021) | SCC OnLine SC 925

⁶ B.V. Seshaiiah v. State of Telangana & Anr | (2023) SCC OnLine SC 96