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SPECIFIC PERFORMANCE OF CONTRACTS

The Supreme Court (SC), on November 10, 2025, in the *K.S. Manjunath* case,¹ addressed critical issues regarding the maintainability of a suit for specific performance following a termination notice and the standard required for subsequent purchasers to claim '*bona fide*' status under Section 19(b) of the Specific Relief Act, 1963 (Act).

Brief Facts

In 2000, certain original vendors of immovable property (**Original Vendors**) executed an unregistered agreement to sell (ATS) in favor of certain original vendees (**Original Vendees**). The total agreed sale consideration was about Rs. 26 lacs. The Original Vendees paid Rs. 2 lacs as earnest money. Between 2000 and 2001, they made further payments, totalling to over Rs. 8 lacs. Sale deed execution was tied to future contingencies dependent on the Original Vendors' actions, such as land tenure conversion and sub-division work. The Original Vendees had to execute the sale deed within one month of the Original Vendors informing them about certain completed tasks.

In 2003, the Original Vendors issued notice of termination, citing the pendency of litigation (**Suit**) and the death of one vendor as grounds for their inability to proceed (**Notice**). The Notice also asked the Original Vendees to take back the earnest money, failing which the ATS would be "*deemed to be cancelled*." The Original Vendees immediately replied, challenging the termination and asserting their continuous readiness and willingness. The earnest money or subsequent payments were not refunded by the Original Vendors. They also did not respond thereafter.

After the Suit was withdrawn in March 2007, the Original Vendors executed sale deeds in favour of the subsequent purchasers of the property who are appellants (**Subsequent Purchasers**) in February-March 2007. Upon learning of this sale, the Original Vendees filed suit before the trial court (TC) in July 2007 seeking specific performance of the ATS against both the Original Vendors and Subsequent Purchasers. They also prayed for alternative relief of refund of paid amounts with damages.

The TC observed that the Original Vendees proved their readiness and willingness and that the ATS was executed for the stated amount. However, it determined that the Subsequent Purchasers were *bona fide* purchasers for valid consideration without notice of the prior ATS. It thus refused specific performance, holding that granting it would cause hardship to the Subsequent Purchasers.

On appeal, the High Court of Karnataka (HC) reversed the TC order, noting that the Subsequent Purchasers had been informed of the ATS and had been given a copy of the Notice prior to their purchase. It held that since the earnest money was never returned, the termination was not considered final, and the ATS remained subsisting. It concluded that the Subsequent Purchasers were not *bona fide* purchasers and decreed specific performance. The SC

¹ *K. S. Manjunath and Ors. v. Moorasavirappa @ Muttanna Chennappa Batil Since Deceased By His Lrs And Ors*, 2025 LiveLaw (SC) 1084.

appeals arose from the HC’s decision, specifically challenging the grant of specific performance and the finding that the Subsequent Purchasers lacked *bona fide*.

SC’s Judgement & Reasoning

The SC dismissed the appeals, upholding the HC’s decision to grant specific performance. The HC addressed two primary contentions raised by the Subsequent Purchasers:

1. Maintainability of Suit Without Seeking Declaration

The Subsequent Purchasers argued that the suit was not maintainable because the Original Vendees failed to seek a declaration that the termination notice was bad in law. The SC held that the suit was maintainable observing that:

- The ATS was non-determinable in nature, as none of its terms conferred a right upon either party to unilaterally rescind the contract for convenience or on the happening of contingencies cited.
- Unilateral termination of a non-determinable agreement is impermissible. The Original Vendors’ reasons for termination were matters of convenience personal to them and not breaches attributable to the Original Vendees. Since the Original Vendees immediately challenged the termination and the contract was non-determinable, the termination amounted to a breach by repudiation.
- Where termination is unilateral and not for *bona fide* reasons, the Original Vendee is not required to seek a separate declaration challenging the termination before pursuing specific performance, as the ATS remains subsisting and executable.

2. Bona Fides of the Subsequent Purchasers

The SC held:

- To claim protection as a *bona fide* purchaser for value without notice under Section 19(b) of the Act, a purchaser must establish: (i) purchase for value; (ii) payment in good faith; and (iii) absence of notice of the earlier contract. The HC found the Subsequent Purchasers failed this test.
- The Subsequent Purchasers admitted they received the Notice from the Original Vendors prior to purchase which contained all material particulars of the ATS. The Notice itself revealed that the termination was based on the Original Vendors’ inability and that the agreement was only ‘deemed’ cancelled if the Original Vendees failed to take back the earnest money within a month. The Subsequent Purchasers chose to remain content with the Original Vendors’ unilateral assertions regarding the termination and consciously abstained from inquiring whether the earnest money was refunded or if the Original Vendees had contested the termination.

The SC emphasized that ‘good faith’ requires honesty combined with due care and attention. Having the means to contact the Original Vendees to verify the termination, the Subsequent Purchasers’ deliberate failure to do so constituted designed abstention for the very purpose of avoiding notice, negating both good faith and lack of notice. Therefore, the Subsequent Purchasers could not escape the consequences of deemed notice.

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

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