

Supreme Court of India

State Bank Of India, Bhubaneswar vs Ganjam District Tractor Owners' ... on 20 June, 1994

Equivalent citations: I (1995) BC 619 SC, 1994 81 CompCas 564 SC, JT 1994 (7) SC 108, (1994) 108 PLR 435, 1994 (3) SCALE 65, (1994) 5 SCC 238

Bench: A Ahmadi, S Agrawal

JUDGMENT

1. The grievance of the respondent-association in the High Court related to charging of compound interest on loans given to its members for the purchase of tractOrs.

2. The Division Bench of the High Court of Orissa presided over by the then learned Chief Justice held that the agreement entered into by the Bank with the borrower did not stipulate the payment of compound interest and hence it was unnecessary to examine if there existed such an stipulation, the same would have been enforceable by the Bank. See paragraph 13 of the judgment. It is true that in the body of the judgment reference has been made to the case of Bank of India v. Karnam Ranga Rao and it is observed that since farmers do not have regular source of income other than sale proceeds of their crops, and receive the sale proceeds annually, they cannot be expected to have agreed to pay interest with periodical rests. In paragraph 8 of the judgment the High Court has observed:

The present, therefore, is a case which would make the finding of the Karnataka High Court relevant insofar as the policy circulars of the Reserve Bank of India are concerned.

But the High Court ultimately decided in favour of the borrower because in its view the agreement did not provide for periodical rests nor did it stipulate for payment of compound interest, making the above quoted observations obiter dicta. In that view of the matter, we see no reason to interfere as the decision does not ultimately rest on the aforequoted view based on the Karnataka High Court decision. We may incidentally say that we have today by a separate judgment dismissed the Bank's appeal against the said decision. We dismiss this petition on the short ground that the agreement on which the Bank's claim is founded does not provide for payment of compound interest or interest with periodical rests.