

Naresh Kumar & Anr.
v.
The State of Karnataka & Anr.

(Criminal Appeal No. 1510 of 2024)

12 March 2024

[Sudhanshu Dhulia* and Prasanna B. Varale, JJ.]

Issue for Consideration

Refusal by High Court to quash criminal proceedings against Appellants/Accused arising out of a civil transaction between Appellants and Respondent No.2, if justified.

Headnotes

Code of Criminal Procedure, 1973 – s.482 – Powers of the High Court under – Quashing of FIR filed by Respondent No.2 against Appellants – Appellants, employees of a bicycle manufacturing company engaged Respondent No.2 for assembling, transporting and delivering bicycles – Respondent No.2 aggrieved by the fact of payment not being commensurate with the service rendered - FIR filed under Sections 406, 420, 506, Indian Penal Code – Subsequently, settlement arrived at between the parties – Appellants paid an additional amount of INR 26,00,000/- to Respondent No.2 as full and final settlement, duly accepted by Respondent No.2 – Payment and receipt of settlement amount not disputed by parties – Chargesheet filed against Appellants – Appellants sought quashing of the FIR and proceedings arising therefrom under Section 482, CrPC on the ground of the dispute being civil in nature – Respondent No.2 objected to settlement on the ground of it being vitiated by coercion – High Court’s refusal to exercise powers under Section 482, CrPC on the ground of a *prima facie* case being made out – Challenged:

Held: Section 482 empowers High Court to prevent abuse of process and secure ends of justice – Though the power under Section 482 should be exercised sparingly, the High Court must not hesitate in quashing criminal proceedings which are essentially of a civil nature – Judgement in *Paramjeet Batra*

Naresh Kumar & Anr. v. State of Karnataka

v. State of Uttarakhand (2013) 11 SCC 673 relied upon – Reference to observations in **Randheer Singh v. State of U.P. (2021) 14 SCC 626** regarding misuse of criminal proceedings as a weapon of harassment and also **Usha Chakraborty & Anr. v. State of West Bengal & Anr. 2023 SCC OnLine SC 90** for exercise of the inherent powers of the High Court under Section 482 to quash civil disputes cloaked in criminal offence – High Court erred in holding that a *prima facie* case was made out based on the ground that Appellants' intention to cheat Respondent No.2 from the beginning was evident from the fact that the Appellants had cumulatively paid Respondent No.2 an amount much higher than what the latter was entitled to receive for the services rendered by him – Additional amount paid in light of the settlement, cannot be presumed as an act of cheating – Nature of dispute in present case is civil and allegation of a coerced settlement is unlikely – No FIR or Complaint by Respondent No.2 alleging coercion, amount also duly accepted by him – Mere breach of contract would not attract criminal prosecution in every case, **Sarabjit Kaur v. State of Punjab and Anr. (2023) 5 SCC 360** relied upon – Every breach of contract would not amount to cheating and it must be proved that fraudulent or dishonest intention to cheat existed while making the promise, as held in **Vesa Holdings (P) Ltd. v. State of Kerala, (2015) 8 SCC 293** – Present dispute was not only civil in nature but also stood settled subsequently – In the instant case, no criminal element present, only an abuse of process – Impugned Order of the High Court set aside – FIR and criminal proceedings quashed – Appeal allowed. [Para 4-8]

Case Law Cited

Paramjeet Batra v. State of Uttarakhand (2013) 11 SCC 673; Sarabjit Kaur v. State of Punjab and Anr. (2023) 5 SCC 360; Vesa Holdings (P) Ltd. v. State of Kerala [2015] 4 SCR 27 : (2015) 8 SCC 293 - relied on.

Randheer Singh v. State of U.P. (2021) 14 SCC 626, Usha Chakraborty & Anr. v. State of West Bengal & Anr. 2023 SCC OnLine SC 90 – referred to.

List of Acts

Code of Criminal Procedure, 1973; Penal Code, 1860.

Digital Supreme Court Reports**List of Keywords**

Quashing of FIR; Inherent powers of the High Court; Criminal case arising from civil dispute; Inherent powers; Criminal breach of trust; Cheating; Settlement; Compromise.

Case Arising From

CRIMINAL APPELLATE JURISDICTION : Criminal Appeal No.1510 of 2024

From the Judgment and Order dated 02.12.2020 of the High Court of Karnataka at Bengaluru in CRLP No.8003 of 2019

Appearances for Parties

Aman Lekhi, Sr. Adv., Abhishek Gupta, Chaitanya Mahajan, Ms. Payal Kakra, Ritwiz Rishabh, Ujjwal Sinha, Aniket Seth, Ms. Snehilsonam, Snehil Sonam, Kunal K., Ms. Ishika Jain, Advs. for the Appellants.

Anand Sanjay M Nuli, Sr. Adv., D. L. Chidananda, Ravindera Kumar Verma, Dharm Singh, Shiva Swaroop, M/s. Nuli & Nuli, Advs. for the Respondents.

Judgment / Order of the Supreme Court**Judgment**

Sudhanshu Dhulia, J.

Leave granted.

2. The appellants before this Court have challenged the order dated 02.12.2020 of the Karnataka High Court by which their petition under Section 482 of Criminal Procedure Code for quashing the FIR has been dismissed. The case of the appellants before the High Court of Karnataka was that the FIR which was instituted by the complainant i.e. respondent no. 2 is primarily a civil dispute and has no criminal element and the entire criminal proceedings initiated against the appellants is nothing but an abuse of the process and consequently, they had invoked the extraordinary powers of the High Court under Section 482 of the Criminal Procedure Code. The two appellants before this Court are the Assistant Manager (Marketing) and the Managing Director of a company, which is a manufacturer of bicycles. Respondent no.2 was given a contract, as it has been stated before this Court, for the assembly of bicycles, their transport

Naresh Kumar & Anr. v. State of Karnataka

and their delivery, at the rate of Rs.122/- for each bicycle, and since they had assembled 83,267 bicycles, they raised invoices amounting to Rs. 1,01,58,574/- and were liable to be paid the same. However, respondent no.2 contends that instead, a payment of only Rs.35,37,390/- was given by the appellants. Hence, it was a case of criminal breach of trust and cheating and the First Information Report No. 113 of 2017 against the appellant no. 1 was filed on 24.05.2017 under Sections 406, 420 and 506 of the Indian Penal Code at P.S. Doddaballapura, Bangalore Rural District. Subsequently, a Chargesheet dated 30.05.2019, was filed in the court where both the appellants were made an accused.

3. Meanwhile, an important fact occurred, of which no importance seems to have been given by the High Court. Subsequent to the filing of FIR there is an admitted settlement between the appellants and respondent No. 2 by a Compromise Deed dated 27.12.2017 by which as a full and final settlement between the two parties, an additional amount of Rs. 26 lakhs were to be paid by the appellant, which has been duly given and accepted. This amount was deposited in the account of respondent no. 2 on 29.12.2017. This was done by the appellants in order to give a quietus to the whole situation and to bring peace, according to the appellants. Therefore, as of now, a total amount of Rs.62 lakhs as against Rs. 1,01,58,574/- which was claimed by the complainant has been admittedly paid. The case of the respondent no. 2 against the settlement dated 27.12.2017 is that the respondent no. 2 was coerced in entering into this settlement and this is not a settlement arrived at by the free will of the complainant and therefore the prosecution of the appellants is necessary under the criminal law. The High Court has refused to accept the contention of the appellants that the dispute between the parties in any case is civil in nature. The High Court was of the opinion that since the appellants had claimed that the complainant assembled only 28,995 bicycles, which would make them liable to pay only an amount of Rs.35 lakhs, but instead the appellants had paid an amount of Rs.62 lakhs which shows that the actual number of bicycles which were assembled by the complainant was much more than 28,995 bicycles, as claimed by the appellants and therefore, the appellants had an intention to cheat the complainant right from the beginning. Thus, it was held by the High Court that *prima facie* a case of cheating is made out against the appellants.

Digital Supreme Court Reports

4. Having heard the learned counsel for both the parties, we are of the considered view that the findings of the High Court on this aspect are not correct. We do not agree with the findings arrived at by the High Court for two reasons. Firstly, the dispute between the parties is primarily, civil in nature. It is after all a question of how many bicycles the complainant had assembled and the dispute between the parties is only regarding the figure of bicycles and consequently of the amount liable to be paid. This is a civil dispute. The complainant has not been able to establish that the intention to cheat the complainant was there with the appellants right from the beginning. Merely because the appellants admit that only 28,995 bicycles were assembled, but they have admittedly paid an amount of Rs. 62,01,746/- to the complainant, which is of a much higher number of bicycles, would not prove that the intention of the appellants right from the beginning was to cheat. This amount i.e. the additional amount of Rs. 26 lacs have been paid by the appellants pursuant to a settlement. The reasons and the logic for arriving at a settlement are quite different. In this case it seems, it is primarily to bring a quietus to the dispute and to have peace and to avoid litigation. The mere fact that the appellants have paid an additional amount pursuant to the settlement, cannot be presumed as an act of cheating. Moreover, the complainant does not deny the fact that a settlement was reached between the parties though he says he was coerced into the settlement. He does not dispute that the additional amount paid by the appellants under the terms of the compromise deed, which is an amount of Rs.25,75,442 (after deducting TDS) was received by the complainant, as this amount has been received in a bank transaction through NEFT on 29.12.2017. The allegation that the complainant was coerced into a settlement, looks unlikely for two reasons. First, there is no FIR or Complaint that the complainant was coerced into this settlement. Secondly, this amount was duly accepted by the complainant.
5. Under these circumstances, we are of the considered view that this is a case where the inherent powers should have been exercised by the High Court under Section 482 of the Criminal Procedure Code as the powers are there to stop the abuse of the process and to secure the ends of justice.
6. In the case of ***Paramjeet Batra v. State of Uttarakhand (2013) 11 SCC 673***, this Court recognized that although the inherent powers of

Naresh Kumar & Anr. v. State of Karnataka

a High Court under Section 482 of the Code of Criminal Procedure should be exercised sparingly, yet the High Court must not hesitate in quashing such criminal proceedings which are essentially of a civil nature. This is what was held:

*“12. While exercising its jurisdiction under Section 482 of the Code the High Court has to be cautious. This power is to be used sparingly and only for the purpose of preventing abuse of the process of any court or otherwise to secure ends of justice. Whether a complaint discloses a criminal offence or not depends upon the nature of facts alleged therein. Whether essential ingredients of criminal offence are present or not has to be judged by the High Court. **A complaint disclosing civil transactions may also have a criminal texture. But the High Court must see whether a dispute which is essentially of a civil nature is given a cloak of criminal offence. In such a situation, if a civil remedy is available and is, in fact, adopted as has happened in this case, the High Court should not hesitate to quash the criminal proceedings to prevent abuse of process of the court.**”*

(emphasis supplied)

Relying upon the decision in **Paramjeet Batra** (supra), this Court in **Randheer Singh v. State of U.P. (2021) 14 SCC 626**, observed that criminal proceedings cannot be taken recourse to as a weapon of harassment. In **Usha Chakraborty & Anr. v. State of West Bengal & Anr. 2023 SCC OnLine SC 90**, relying upon **Paramjeet Batra** (supra) it was again held that where a dispute which is essentially of a civil nature, is given a cloak of a criminal offence, then such disputes can be quashed, by exercising the inherent powers under Section 482 of the Code of Criminal Procedure.

7. Essentially, the present dispute between the parties relates to a breach of contract. A mere breach of contract, by one of the parties, would not attract prosecution for criminal offence in every case, as held by this Court in **Sarabjit Kaur v. State of Punjab and Anr. (2023) 5 SCC 360**. Similarly, dealing with the distinction between the offence of cheating and a mere breach of contractual obligations, this Court, in **Vesa Holdings (P) Ltd. v. State of Kerala, (2015) 8 SCC 293**, has held that every breach of contract would not give rise

Digital Supreme Court Reports

to the offence of cheating, and it is required to be shown that the accused had fraudulent or dishonest intention at the time of making the promise.

8. In the case at hand, the dispute between the parties was not only essentially of a civil nature but in this case the dispute itself stood settled later as we have already discussed above. We see no criminal element here and consequently the case here is nothing but an abuse of the process. We therefore allow the appeal and set aside the order of the High Court dated 02.12.2020. The criminal proceedings arising out of FIR No.113 of 2017 will hereby stand quashed.

Headnotes prepared by:

Niti Richhariya, Hony. Associate Editor
(*Verified by:* Kanu Agrawal, Adv.)

Result of the case:

Appeal allowed.