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Clarity on Negotiable Instruments Act: Supreme Court Defines Jurisdiction for Cheque Bounce Cases

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Introduction

The Supreme Court of India recently stepped in to resolve a recurring and often confusing question in cheque dishonour cases, where exactly should a complaint be filed when a cheque bounces?

In ***Prakash Chimanlal Sheth vs. Jagruti Keyur Rajpopat***[1], the Court examined a situation involving four dishonoured cheques and the resulting dispute over territorial jurisdiction. The case became a crucial opportunity for the Court to clear the legal fog that frequently surrounds such filings under the Negotiable Instruments Act.

Setting aside the decisions of both the Magistrate's Court and the High Court of Karnataka, the Supreme Court delivered a firm clarification: the determining factor for jurisdiction is the location of the payee's bank account. By doing so, the Court corrected the earlier rulings and laid down a clear and practical rule aimed at reducing procedural uncertainty in cheque dishonour litigation.

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Background of the Case

The dispute in this case traces back to a financial arrangement that soon turned into a jurisdictional battle.

The appellant, Prakash Chimanlal Sheth, had extended a loan of ?38,50,000 to Keyur Lalitbhai Rajpopat. The respondent, Jagruti Keyur Rajpopat, stood as a guarantor for this loan and was also herself a recipient of financial assistance from the appellant. To settle both her husband's and her own liabilities, she issued four cheques in September 2023.

These cheques were deposited by the appellant with Kotak Mahindra Bank at its Opera House Branch in Mumbai. However, on 15 September 2023, all four cheques were dishonoured due to insufficiency of funds. Consequently, the appellant initiated four separate complaint cases under Section 200 of the Code of Criminal Procedure read with Section 138 of the Negotiable Instruments Act, before the Judicial Magistrate First Class, Fifth Court, Mangalore.

The jurisdictional question arose immediately. By an order dated 12 December 2023, the Magistrate returned the complaints, holding that since the drawee bank was located in Mumbai, the courts at Mangalore lacked territorial jurisdiction. This view was affirmed by the High Court of Karnataka, Bengaluru, on 5 March 2024, which dismissed the appellant's challenge under Section 482 CrPC.

The matter then reached the Supreme Court.

During the proceedings, a crucial factual clarification emerged: although the cheques were deposited at the Mumbai branch, the appellant's actual bank account was maintained with Kotak Mahindra Bank's Bendurwell Branch in Mangalore. The High Court had proceeded on an incorrect assumption that the appellant's account was located in Mumbai, which significantly influenced its finding on jurisdiction.

Legal Reasoning and Relevant Provisions

At the heart of the dispute was a narrow but crucial legal question: which court has the territorial jurisdiction to try an offence under Section 138 of the Negotiable Instruments Act, 1881?

The Supreme Court's analysis turned on the proper interpretation of Section 142(2)(a) of the N.I. Act, a provision introduced through the 2015 amendment specifically to eliminate the ambiguity that had long plagued cheque dishonour litigation.

This provision clearly mandates that an offence under Section 138 can be tried only by a court within whose jurisdiction the bank branch of the payee (or holder in due course) is situated provided the cheque is presented for collection through that account.

The decisive factor is not where the cheque is deposited, but where the payee maintains his or her bank account.

The Court reinforced this interpretation by relying on its earlier ruling in ***Bridgestone India Private Limited vs. Inderpal Singh***[2], which had already affirmed that jurisdiction follows the location of the payee's bank branch.

Applying this principle to the facts, the Court took note of documentary evidence produced by the appellant, including a certificate from Kotak Mahindra Bank, Bendurwell Branch, Mangalore, confirming that his account (No. 0412108431) was maintained there. Even the respondent's counsel conceded that while the appellant had earlier operated an account in Mumbai, it had since been shifted to Mangalore.

Thus, it was undisputed that at the time the cheques were presented, the operative account was located at the Bendurwell, Mangalore branch. The Court further clarified that the mere act of depositing the cheques at the Mumbai branch only for onward credit to the Mangalore account could not determine jurisdiction. The statutory test under Section 142(2)(a), the Court emphasized, remains firmly anchored to the location of the payee's bank branch, not the place of presentation.

Judicial Reasoning

The Supreme Court determined that the High Court and the Magistrate's reasoning was flawed. The High Court's decision was based on the erroneous premise that the appellant's bank account was located at the Opera House Branch of Kotak Mahindra Bank in Mumbai. However, it was established that the appellant's account was, in fact, maintained at the Bendurwell, Mangalore Branch of the same bank. The appellant had merely deposited the cheques at the Mumbai branch to be credited to his account in Mangalore.

Based on the clear mandate of Section 142(2)(a) of the N.I. Act, the Court concluded that the correct jurisdiction for the complaints was the court in Mangalore, as the appellant maintained his account there at the time the cheques were presented.

Conclusion

The Supreme Court's decision in this case decisively settles the jurisdictional issue concerning complaints filed under Section 138 of the N.I. Act. The Court set aside the impugned orders of both the High Court of Karnataka and the Judicial Magistrate First Class, Fifth Court, Mangalore, thereby correcting their erroneous understanding of the law. By clarifying that jurisdiction lies with the court where the payee maintains their account, as mandated by Section 142(2)(a) of the N.I. Act, the judgment provides a clear and unambiguous rule.

The Court's reliance on the plain language of the amended Section 142(2)(a) is commendable, as it provides a straightforward test for determining jurisdiction. The ruling correctly distinguishes between the place where a cheque is physically deposited and the location of the bank branch where the payee's account is maintained. This distinction is vital in the modern banking era, where cheques can be deposited at any branch of a bank, regardless of the account's home branch. The decision ensures that complainants are not burdened by jurisdictional technicalities and can seek justice in the court where their financial transactions are anchored.

1. CRIMINAL APPEAL NOs. OF 2025 (S.L.P.(Crl.) Nos. 5540-5543 of 2024) ??
2. (2016) 2 SCC 75 ??

Frequently Asked Questions

Where should a cheque bounce complaint under Section 138 be filed?

The Supreme Court clarified that the complaint must be filed where the payee's bank account is maintained (that is, the location of the bank branch where the payee presents or delivers the cheque for collection) which determines territorial jurisdiction in cheque dishonour cases.

What determines territorial jurisdiction in a cheque dishonour case?

The determining factor is the location of the payee's (complainant's) bank account where the cheque is delivered for collection, consistent with Section 142(2)(a) of the Negotiable Instruments Act, not the location of the drawee/drawer's bank.

What did the Supreme Court hold in Prakash Chimanlal Sheth v. Jagruti Keyur Rajpopat?

Setting aside the orders of the Magistrate and the Karnataka High Court, the Court held that jurisdiction in a Section 138 case is determined by the location of the payee's bank account, laying down a clear, practical rule to reduce procedural uncertainty in cheque dishonour litigation.

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