



INSOLVENCY & BANKRUPTCY

Delhi High Court Affirms Validity of Full and Final Settlement in Subcontract Recovery Dispute

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PUBLISHED 28 October 2025

Introduction

The Delhi High Court recently delivered a significant judgment in the appeal case involving M/S BS Enviro N Infracon Pvt. Ltd. (Appellant) and VIJ Contracts Pvt. Ltd. (Respondent)[1]. The case centered on a dispute over the recovery of an outstanding amount of Rs. 50,41,835/- related to a subcontract for an 800 KLD Sewage Treatment Plant (STP) at Haryana Vishwakarma Skill University. The Appellant's appeal challenged the dismissal of its suit for recovery by the Trial Court, raising questions on whether a prior document signed between the parties constituted a full and final settlement of claims.

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Factual Background

The Appellant, engaged in STP-related work, had subcontracted its services to VIJ Contracts Pvt. Ltd., the principal contractor for the project. Under the Letter of Intent dated March 1, 2019, the contract value amounted to Rs. 1,15,00,000/- plus GST, totaling Rs. 1,28,80,000/-. The Appellant raised invoices for materials totaling over Rs. 1 crore, of which Rs. 78,38,165/- was paid by the Respondent, leaving a claimed balance of Rs. 50,41,835/-. The dispute arose following the Appellant invoking MSME Samadhaan proceedings due to delayed payments. A meeting was held on September 26, 2019, involving the Appellant, Respondent, and IRCON representatives. A document was executed during this meeting, recording a net balance of Rs. 14,68,165/- after adjustments for invoices, retentions, and TDS, with the express condition that the MSME notice be withdrawn prior to any further payment. The Respondent issued cheques for the agreed amount, which the Appellant encashed.

Despite encashing the payment, the Appellant did not withdraw the MSME notice and pursued additional claims, which were ultimately dismissed on maintainability grounds by an arbitral award. The Appellant then filed a recovery suit, which the Trial Court dismissed.

Appellant's Contentions

The Appellant contended that the September 26, 2019 document did not constitute a full and final settlement but merely recorded payments made "on account" to keep the contract active. They argued that the Respondent's own correspondence referred to payments being made to continue contractual work, rather than to discharge all prior claims. The Appellant further contended that they were entitled to the release of unbilled contract value of Rs. 28,57,728/- and retention amounts due to incomplete performance by the Respondent, citing sections 37 and 38 of the Indian Contract Act, 1872.

Respondent's Contentions

The Respondent maintained that the document signed on September 26, 2019 recorded a full and final settlement of all claims accrued until that date. Acceptance and encashment of the payment discharged the Appellant's claims, and the condition requiring withdrawal of the MSME notice reinforced that no further claims were enforceable. The Respondent further argued that the document recorded a novation under Section 62 of the Indian Contract Act, effectively replacing any prior obligations with the agreed settlement.

High Court Analysis

1. Full and Final Settlement

The High Court examined the documentary evidence and observed that the September 26, 2019 document clearly recorded the net balance and was acknowledged by the Appellant's Director. The encashment of the cheques indicated acceptance of the payment in accordance with the agreement. The Court held that this conduct, together with the contemporaneous records of the meeting, constituted accord and satisfaction as well as a novation of all claims accrued up to that date under Sections 62 and 63 of the Indian Contract Act. The Court emphasized that once a lesser sum is voluntarily accepted in satisfaction of a claim, the creditor cannot later pursue the balance.

The Appellant's argument that the payment was "on account" was found to be inconsistent with the signed document and their own subsequent actions, particularly the failure to withdraw the MSME notice. The Court affirmed that the settlement document effectively barred further claims for payments already accounted for.

2. Unbilled Contract Value and Substantial Performance

The High Court also examined the Appellant's claim for unbilled contract value, asserting that they had substantially performed the contract. The Court noted that the Appellant had supplied materials but had not completed installation, testing, or commissioning essential components of the work. Consequently, the claim for substantial performance was unsustainable, and the claimed unbilled contract value could not be enforced independently of the settlement.

3. Retention Amounts

Regarding retention amounts, including security deposits, PBG-related funds, and TDS, the Court observed that these were conditional upon completion of the Defect Liability Period or submission of equivalent guarantees. The Appellant failed to demonstrate that these conditions had matured or were immediately payable independent of the settlement.

Conclusion

The Delhi High Court upheld the Trial Court's dismissal of the recovery suit, affirming that the September 26, 2019 document constituted a full and final settlement of claims accrued up to that date. The judgment reinforces the legal principles of accord and satisfaction and novation, highlighting that acceptance of a negotiated lesser payment discharges prior claims. The decision highlights the importance for contractors and subcontractors to carefully consider settlement agreements and the consequences of accepting payments with conditions attached, particularly in the context of MSME proceedings and contractual disputes. **For more details, write to us at: contact@indialaw.in**

[1] RFA (COMM) 132/2024

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