



CIVIL

NEGOTIABLE INSTRUMENT

Compounding After Conviction: Punjab & Haryana High Court Affirms the Compensatory Soul of Section 138 NI Act

Mukesh Sharma @ Mukesh v. State of Haryana and Anr. | CRM-M-58269-2025 | Decided: 07.05.2026

Introduction In a significant ruling that reinforces the compensatory philosophy underlying the Negotiable Instruments Act, 1881 (NI Act), the Punjab and Haryana High Court, in Mukesh v. State of Haryana and Anr. (CRM-M-58269-2025), held that a conviction under Section 138 [...]

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Introduction

In a significant ruling that reinforces the compensatory philosophy underlying the Negotiable Instruments Act, 1881 (NI Act), the Punjab and Haryana High Court, in *Mukesh v. State of Haryana and Anr.* (CRM-M-58269-2025), held that a conviction under Section 138 of the NI Act may be set aside and the offence compounded even at the post-conviction stage, provided the parties have voluntarily and genuinely settled their dispute. The judgment, delivered by Mr. Justice Subhas Mehla on 07 May 2026, reaffirms that the criminal machinery of the NI Act is not an instrument of retribution but a vehicle of compensation.

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Background and Facts

The genesis of the present proceedings lies in a complaint filed by one Sunil Kumar against the petitioner, Mukesh Sharma, under Section 138 of the NI Act for dishonour of a cheque. The learned Additional Chief Judicial Magistrate, Rewari, convicted the petitioner and imposed a sentence vide order dated 21.10.2016. The petitioner's appeal was subsequently dismissed by the Additional Sessions Judge, Rewari, vide order dated 04.01.2019, lending finality to the conviction at the trial and appellate levels. Notwithstanding the conviction, the parties entered into a comprehensive compromise on 27.02.2023, whereby the petitioner discharged the entire compensation amount to the complainant in full and final settlement of the claim. Pursuant to this settlement, the complainant withdrew the execution proceedings that had been initiated before the Daily Lok Adalat, Rewari, as confirmed by the District and Sessions Judge, Rewari, in his report dated 12.12.2025. In compliance with a direction of the High Court dated 06.04.2026, the petitioner surrendered before the Trial Court, a fact duly recorded by the learned JMIC, Rewari, on 16.04.2026.

Petitions Before the High Court

Two interlinked petitions were placed before the High Court. The first, CRM-16625-2026, was an application under Section 147 of the NI Act read with Section 528 of the Bharatiya Nagarik Suraksha Sanhita, 2023 (BNSS) seeking compounding of the offence. The second, CRM-M-58269-2025, was the main petition seeking quashing of the original complaint, setting aside of the conviction and appellate orders, and compounding of the offence on the basis of the compromise. Since both petitions arose from the same settlement and involved interconnected reliefs, the Court took them up conjointly.

Submissions of the Parties

Learned counsel for the petitioner, Mr. Sandeep Yadav, submitted that the petitioner, who was in custody, had duly surrendered in compliance with the Court's earlier direction. He urged that the entire dispute had been amicably resolved, with the complainant having accepted the full compensation amount and having withdrawn the execution proceedings. He further submitted that no useful purpose would be served by the petitioner's continued incarceration in light of the settlement, and that the sentence imposed in 2016 may be modified to the period already undergone. The complainant, though duly served, did not appear before the Court, signifying an absence of opposition to the relief sought.

Legal Framework: Section 147 NI Act and Inherent Jurisdiction

The Court's analysis proceeded along two complementary planes. First, with respect to compoundability, the Court noted that Section 147 of the NI Act expressly renders all offences under the Act compoundable, notwithstanding the provisions of the Code of Criminal Procedure, 1973. The legislature's intent is thus unambiguous: the compounding of a cheque dishonour offence is permissible at any stage of the proceedings.

Second, with respect to the exercise of inherent jurisdiction under Section 528 BNSS, the Court underscored that such extraordinary power must be invoked sparingly and with circumspection, but is rightly called upon where the continuation of criminal proceedings would serve no useful purpose and would amount to an abuse of the Court's process.

Case Laws Relied Upon

The Court drew extensively upon the jurisprudence of the Supreme Court of India. In *P. Mohanraj & Ors. v. M/s Shah Brothers Ispat Pvt. Ltd.*, 2021 INSC 133, the Apex Court characterised Section 138 proceedings as a 'civil sheep in a criminal wolf's clothing,' establishing that the provision's primary object is to compensate the victim rather than penalise the accused. This foundational principle informed the Court's readiness to accept the compromise.

In *Gian Chand Garg v. Harpal Singh* (SLP (Crl.) No. 8050 of 2025, decided 11.08.2025), the Supreme Court held that once the complainant executes a compromise deed accepting the amount in full and final settlement, the proceedings under Section 138 cannot be sustained and the conviction must be set aside. The Court in the present matter relied heavily on this recent pronouncement as directly on point.

The principles governing the exercise of inherent jurisdiction were drawn from *K. Bharthi Devi v. State of Telangana*, 2024 INSC 750, which held that criminal proceedings arising from commercial or financial disputes, where the wrong is essentially private in nature, may be quashed upon genuine settlement, and that continuation of such proceedings would constitute unnecessary oppression. The Court also applied the detailed framework articulated in *Parbatbhai Aahir v. State of Gujarat*, 2017 INSC 1003, which held that cases involving commercial or financial transactions with a predominant civil character are appropriate candidates for quashing where the parties have settled and the continuation of proceedings would cause oppression and prejudice.

Court's Analysis and Final Decision

Applying the aforesaid principles to the facts, the Court found that the dispute was overwhelmingly commercial in character, the compromise was voluntary and untainted by coercion or fraud, the complainant had received the full settlement amount, and the execution proceedings had been withdrawn. The Court concluded that the substratum of the dispute had ceased to exist, and compelling the petitioner to endure further incarceration would be a punitive and technical exercise divorced from the compensatory object of the statute.

Accordingly, in exercise of powers under Section 528 BNSS read with Section 147 NI Act, the Court allowed the petition in part: the offence under Section 138 NI Act was compounded; the sentence dated 21.10.2016 was modified to the period already undergone by the petitioner; and the Trial Court was directed to issue release warrants forthwith.

Significance for Practitioners and Litigants

This judgment carries significant practical implications for parties to cheque dishonour litigation. It firmly establishes that a post-conviction compromise, supported by full payment of the settlement amount and withdrawal of execution proceedings, is sufficient to warrant compounding and consequential vacation of the conviction. The ruling also underscores the Court's willingness to exercise inherent jurisdiction under Section 528 BNSS to prevent the criminal process from becoming an instrument of oppression in matters that are essentially civil in character.

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