



CRIMINAL

NEGOTIABLE INSTRUMENT

From Conviction to Compromise: Supreme Court Opens the Door to Post-Sentence Settlements

03.06.2026 Introduction The Supreme Court of India has once again reaffirmed the settlement-oriented philosophy underlying cheque dishonour litigation by holding that an offence under Section 138 of the Negotiable Instruments Act, 1881 can be compounded even after conviction has attained finality and the accused has commenced serving the sentence. In its decision in Parsharvanath Weld [...]

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Introduction

The Supreme Court of India has once again reaffirmed the settlement-oriented philosophy underlying cheque dishonour litigation by holding that an offence under Section 138 of the Negotiable Instruments Act, 1881 can be compounded even after conviction has attained finality and the accused has commenced serving the sentence. In its decision in *Parsharvanath Weld Wires Pvt. Ltd. & Anr. v. State of Chhattisgarh & Anr.*^[1], the Court emphasized that where the complainant has received full compensation and voluntarily agrees to settle the dispute, procedural finality should not stand in the way of achieving substantive justice.

The judgment assumes significance in the evolving jurisprudence surrounding Section 138 proceedings, which, although criminal in form, are fundamentally compensatory in character. By allowing the parties to compound the offence at a stage when the conviction had been affirmed by all appellate forums and the accused was already undergoing imprisonment, the Supreme Court reinforced the legislative intent behind Section 147 of the Negotiable Instruments Act and highlighted the primacy of restitution over punishment in commercial disputes.

The ruling not only provides clarity on the scope of post-conviction settlements in cheque dishonour cases but also strengthens the judiciary's broader objective of encouraging consensual dispute resolution and reducing protracted litigation. It serves as an important precedent for litigants, practitioners, and courts dealing with the enforcement of financial liabilities arising from dishonoured cheques.

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Background of the Case

The dispute originated from the dishonour of a cheque issued by the accused company, resulting in the institution of criminal proceedings under Section 138 of the Negotiable Instruments Act, 1881. Upon conclusion of the trial, the Judicial Magistrate First Class found the accused guilty and sentenced the company's Director to one year of simple imprisonment. The Trial Court further directed payment of compensation amounting to ₹28 lakh the value of the dishonoured cheque to the complainant under Section 357(3) of the Code of Criminal Procedure, along with a default sentence in the event of non-payment.

The conviction was subsequently affirmed by the Sessions Court in appeal and later by the High Court of Chhattisgarh in criminal revision, thereby exhausting the ordinary appellate remedies available to the accused. Following the dismissal of the revision petition, the Director of the company was taken into custody on 23 April 2026 to undergo the sentence imposed by the Trial Court.

However, shortly after the commencement of imprisonment, the parties entered into an amicable settlement on 25 April 2026. Under the terms of the settlement, the complainant agreed to accept a sum of ₹30 lakh as full and final satisfaction of all claims arising from the cheque transaction and consented to the compounding of the offence. The settlement amount was duly paid by the accused and acknowledged by the complainant, thereby fully redressing the grievance that had led to the criminal prosecution.

In light of the settlement, the parties sought compounding of the offence under Section 147 of the Negotiable Instruments Act. Their request, however, was rejected by the Judicial Magistrate and the rejection was subsequently affirmed by the High Court on the ground that a court could not revisit or review a judgment that had already attained finality. Aggrieved by this refusal despite the complete settlement of the dispute, the appellants approached the Supreme Court seeking recognition of the compromise and quashing of the conviction and sentence.

The Legal Issue

The central issue before the Supreme Court was whether an offence under Section 138 of the NI Act could be compounded after the conviction had attained finality and the accused had already begun serving the sentence.

The Statutory Framework

The legal foundation of the dispute lies in Sections 138 and 147 of the Negotiable Instruments Act, 1881. Section 138 criminalises the dishonour of cheques issued towards the discharge of a legally enforceable debt or liability, subject to compliance with the statutory requirements relating to presentation, notice, and failure to make payment within the prescribed period. Introduced to enhance the credibility of negotiable instruments and ensure discipline in commercial transactions, the provision seeks to deter defaults while simultaneously protecting the interests of payees.

Complementing this framework is Section 147, which was inserted through the Negotiable Instruments (Amendment and Miscellaneous Provisions) Act, 2002. The provision declares all offences under the Act to be compoundable notwithstanding anything contained in the Code of Criminal Procedure. By incorporating a non-obstante clause, the legislature accorded primacy to negotiated settlements, recognising that disputes arising from cheque dishonour are predominantly commercial in nature and are best resolved through restitution rather than punitive sanctions.

Over the years, the Supreme Court has consistently interpreted Section 147 liberally, holding that courts should facilitate settlements wherever possible, even at advanced stages of criminal proceedings. The provision reflects a legislative preference for securing payment to the complainant and restoring commercial confidence, rather than insisting upon the continuation of criminal prosecution once the underlying financial dispute has been amicably resolved.

Against this statutory backdrop, the central question before the Court was whether the power to compound an offence under Section 147 could be exercised even after the conviction had attained finality and the accused had commenced serving the sentence imposed by the court.

Supreme Court's Decision

Allowing the appeal, the Supreme Court accepted the compromise entered into between the complainant and the accused and permitted compounding of the offence. The Court relied upon its earlier decision in *Gian Chand Garg v. Harpal Singh and Another*^[2], wherein the Court had recognised the permissibility of compounding cheque dishonour cases even at advanced stages of criminal proceedings.

The Court observed that since the complainant had received the agreed settlement amount and expressed willingness to compound the offence, there was no impediment to accepting the compromise. Accordingly, the Supreme Court:

- Allowed the appeal;
- Set aside the High Court's order refusing compounding;
- Quashed the conviction and sentence imposed upon the appellants; and
- Directed the immediate release of the Director who was already undergoing imprisonment pursuant to the conviction.

Significance of the Judgment

The decision is a notable addition to the growing body of jurisprudence that recognises the unique character of cheque dishonour proceedings under the Negotiable Instruments Act. While Section 138 creates a criminal offence, the Supreme Court once again highlights that the primary objective of the provision is to secure payment and preserve commercial confidence rather than to impose punitive consequences for their own sake.

A particularly significant aspect of the ruling is the Court's recognition that the power to compound offences under Section 147 of the Act remains available even after a conviction has attained finality and the accused has commenced serving the sentence. By permitting compounding at such an advanced stage, the Court clarified that procedural finality cannot override the legislative policy favouring settlement where the complainant's financial claim has been fully satisfied.

The judgment also strengthens the principle that criminal proceedings arising out of commercial transactions should not be pursued merely as an instrument of punishment once the underlying dispute has been resolved. In doing so, the Court reaffirmed the distinction between conventional criminal offences affecting public order and regulatory offences under the Negotiable

Instruments Act that primarily concern private commercial rights and obligations.

From a practical standpoint, the ruling provides considerable flexibility to litigants engaged in cheque dishonour disputes. It encourages parties to explore settlement opportunities even after the conclusion of trial and appellate proceedings, thereby facilitating expeditious resolution of disputes and reducing the burden on courts and correctional institutions.

More broadly, the judgment reflects the judiciary's continuing commitment to promoting restorative and settlement-based outcomes in commercial litigation. By prioritising restitution over incarceration, the Supreme Court has reinforced the legislative objective of ensuring that the criminal process serves as a mechanism for securing compliance with financial obligations rather than an end in itself.

Key Takeaways

1. Offences under Section 138 of the Negotiable Instruments Act remain compoundable at any stage of the proceedings.
2. Compounding may be permitted even after conviction has attained finality and the accused has begun serving the sentence.
3. Courts will generally prioritize settlement where the complainant has received full compensation and voluntarily consents to compounding.
4. Section 147 of the NI Act continues to be interpreted liberally to promote commercial settlements and reduce prolonged litigation.

Conclusion

The Supreme Court's decision in *Parsharvanath Weld Wires Pvt. Ltd. v. State of Chhattisgarh* serves as another affirmation of the settlement-oriented approach governing cheque dishonour litigation. By permitting compounding even after commencement of imprisonment, the Court has reinforced the principle that the ultimate objective of Section 138 proceedings is restitution rather than retribution, thereby advancing both commercial efficacy and judicial economy.

For more information contact us at : contact@indialaw.in

1. [CRIMINAL APPEAL NO.2904/2026 @ SLP \(CRL.\) NO.10110/2026 ?](#)
2. [2025 SCC OnLine SC 2317 ?](#)

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