

M/S. Mechelec Engineers and Manufacturers

Vs

M/S. Basic Equipment Corporation

Civil Appeal No. 508 of 1976

(CJI A.N. Ray, M.H. Beg, Jaswant Singh JJ)

01.11.1976

JUDGMENT

BEG, J. -

1. The plaintiff-respondent alleged to be a registered partnership firm filed a suit on April 25, 1974, through Smt. Pushpa Mittal, shown as one of its partners, for the recovery of Rs. 21,265.28 as principal and Rs. 7655, as interest at 12% per annum, according to law and mercantile usage, on the strength of a cheque drawn by the defendant on May 12, 1971, on the State Bank of India, which, on presentation, was dishonoured. The plaintiff alleged that the cheque was given as price of goods supplied. The defendant-appellant firm admitted the issue of the cheque by its managing partner, but, it denied any privity of contract with the plaintiff firm. The defendant-appellant had its own version as to the reason and purposes for which the cheque was drawn.

2. The suit instituted under the provisions of Order 37 Civil Procedure Code so that the defendant-appellant had to apply for leave under Order 37, Rule 2, of the Code to defend. This leave was granted unconditionally by the trial Court after a perusal of the cases of the two sides. Order 37, Rule 3, Civil Procedure Code lays down :

(1) The Court shall, upon application by the defendant, give leave to appear and to defend the suit, upon affidavits which disclose such facts as would make it incumbent on the holder to prove consideration, or such other facts as the Court may deem sufficient to support the application.

(2) Leave to defend may be given unconditionally or subject to such appear as to payment into Court, giving security, framing and recording issues or otherwise as the Court thinks fit.

3. A learned Judge of the High Court of Delhi had, on a revision application under Section 115 Civil Procedure Code, interfered with the order of the Additional District Judge of Delhi granting unconditional leave, after setting out not less than seven question on which the parties were at issue. The learned Judge had, after discussing the cases of the two sides and holding that triable issues arose for adjudication, nevertheless, concluded that the defences were not bona fide. He, therefore, ordered :

For these reasons I would allow the revision petition and set aside the order of the trial Court. Instead I would grant leave to the defendant on their paying into court the amount of Rs. 21,265.28 together with interest at the rate of 6 per cent per annum

from the date of suit till payment and costs of the suit (only court fee amount at this stage stage and not the lawyer's fee). The amount will be deposited within two months. There will be no order as to costs of this revision.

4. The only question which arises before us in this appeal by special leave is : Could the High Court interfere, in exercise of its powers under Section 115, Civil Procedure Code, with the discretion of the Additional District Judge, in granting unconditional leave to defend to the defendant-appellant upon grounds which even a perusal of the order of the High Court shows to be reasonable ?

5. *Santosh Kumar v. Bhai Mool Singh* (1958 SCR 1211, 1215 : AIR 1958 SC 321), was a case where a cheque, the execution of which was admitted by the defendant, had been dishonoured. The defendant had set up his defences for refusal to pay. This Court noticed the case of *Jacobs v. Booth's Distillery Company* ((1901) 85 LT 262), where it was held that, whenever a defence could not be shown to be dishonest in limine. This Court observed there (at p. 1215) :

The learned counsel for the plaintiff-respondent relied on *Gopala Rao v. Subba Rao* (AIR 1936 Mad 246 : 70 MLJ 241), *Manohar Lal v. Nanhe Mal* (AIR 1938 Lah 548 : ILR 1938 Lah 289) and *Shib Karan Das v. Mohammed Sadiq* (AIR 1936 Lah 584). All that we need say about them is that if the court is of opinion that the defence is not bona fide, then it can impose conditions and is not tied down to refusing leave of defend. We agree with *Varadachariar, J.* in the Madras case that the court has this third course open to it in a suitable case. But, it cannot reach the conclusion that the defence is not bona fide arbitrarily. It is as much bound by judicial rules and judicial procedure in reaching a conclusion of this kind as in any other matter.

6. On general principles, relating to the exercise of jurisdiction of High Courts under Sections 115, Civil under Section 115, Civil Procedure Code, several cases were cited before us by Mr. Andley : *M. L. Sethi v. R. P. Kapur* ((1973) 1 SCR 697 : (1972) 2 SCC 427) *Managing Director (MIG) Hindustan Aeronautics Ltd., Balanagar, Hyderabad v. Ajit Prasad Tarway, Manager, (Purchase & Stores), Hindustan Aeronautics Ltd., Balanagar, Hyderabad* (AIR 1973 SC 76 : (1972) 3 SCC 195); *D. L.F. Housing & Construction Co. Pvt. Ltd., New Delhi v. Sarup Singh* ((1970) 2 SCR 368 : (1969) 3 SCC 807), *Milkhiram (India) Pvt. Ltd. v. Chamanlal Bros.* (AIR 1965 SC 1698)

7. We need not dilate on the well established principles repeatedly laid down by this Court which govern jurisdiction of the High Courts under Section 115 C.P.C. We think that these principles were ignored by the learned Judge of the High Court in interfering with the discretionary order after a very detailed discussion of the facts of the case by the learned Judge of the High Court who had differed on a pure question of fact - whether the defences could be honest and bona fide. Any decision on such a question, even before evidence has been led by the two sides, is generally hazardous. We do not think that it is fair to pronounce a categorical opinion on such a matter before the evidence of the parties is taken so that its effects could be examined. In the case before us, the defendant had denied, inter alia, liability to pay anything to the plaintiff for an alleged supply of goods. It is only in cases where the defence is patently dishonest or so unreasonable that it could not reasonably be expected to succeed that the exercise of discretion by the trial Court to grant leave unconditionally may be questioned. In the judgment of the High Court we are unable to find a ground of interference covered by Section 115 C.P.C.

8. In *Smt. Kiranmoyee Dassi v. Dr. J. Chatterjee* (49 CWN 246, 253 : AIR 1949 Cal 479 : ILR (1945) 2 Cal 145), *Das, J.*, after a comprehensive review of authorities on the subject, stated the

principles applicable to cases covered by order 17 C.P.C. in the form of the following proposition (at p. 253) :

(a) If the defendant satisfies the court that he was a good defence to the claim on its merits the plaintiff is not entitled to leave to sign judgment and the defendant is entitled to unconditional leave to defend.

(b) If the defendant raises a triable issue indicating that he has a fair or bona fide or reasonable defence although not a positively good defence the plaintiff is not entitled to sign judgment and the defendant is entitled to unconditional leave to defend.

(c) If the defendant discloses such facts as may be deemed sufficient to entitle him to defend, that is to say, although the affidavit does not positively and immediately make it clear that he has a defence, yet, shows such a state of facts as leads to the inference that at the trial of the action he may be able to establish a defence to the plaintiff's claim the plaintiff is not entitled to judgment and the defendant is entitled to leave to defend but in such a case the court may in its discretion impose conditions as to the time or mode of trial but not as to payment into court or furnishing security.

(d) If the defendant has no defence or the defence set up is illusory or sham or practically moonshine then ordinarily the plaintiff is entitled to leave to sign judgment and the defendant is not entitled to leave to defend.

(e) If the defendant has no defence or the defence is illusory or sham or practically moonshine then although ordinarily the plaintiff is entitled to leave to sign judgment, the court may protect the plaintiff by only allowing the defence to proceed if the amount claimed is paid into court or otherwise secured and give leave to the defendant on such condition, and thereby show mercy to the defendant by enabling him to try to prove a defence.

9. The case before us certainly does not fall within the class (e) set out above. It is only in that class of case that an imposition of the condition to deposit an amount in court before proceeding further is justifiable.

10. Consequently, we set aside the judgment and order of the High Court and restore that of the Additional District Judge. The parties will bear their own costs.

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