IN THE HIGH COURT OF PUNJAB AND HARYANA AT CHANDIGARH

RSA No.3162 of 1997(O&M)
Date of decision:20.2.2015

Surinder and others ….Appellants

VERSUS

Bank of India .....Respondent

CORAM: HON'BLE MR. JUSTICE HEMANT GUPTA

Present: Ms. Harveen Kaur, Advocate for
Mr. G.S. Punia, Advocate for the appellants.

None for respondent.

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HEMANT GUPTA, J.(Oral)

The defendants are in second appeal aggrieved against the judgment and decree passed by the learned First Appellate Court on 14.05.1997 whereby an appeal filed by the defendant-respondent was allowed whereby the decree of the trial court granting simple interest on the amount of Rs.3,87,000/- and Rs.3,19,530/- was found to be unsustainable and consequently it was held that the Bank is entitled to recovery of amount of Rs.8,39,754/- along with compound interest etc. Thus, the suit for recovery of Rs.8,39,754/- from the defendants was decreed.

The following substantial question of law arises for consideration:-

> "Whether the plaintiff-Bank is entitled to compound interest, compounded in terms of agreement or in terms of circulars of the Reserve Bank of India."

In the present second appeal, the ground taken is that the circular issued by Reserve Bank of India has a statutory force and therefore, the compound interest can be charged on the agricultural loans.

The said question as to whether the plaintiff is entitled to charge compound interest on agricultural loans has been examined by a Constitution Bench of Hon'ble Supreme Court in Central Bank of India v. Ravindra and others, (2002) 1 SCC 367, wherein it has been held that even in case of agricultural loans, the interest can be compounded but it can be compounded half yearly. The relevant extract from the judgment reads as under:-

> "52**.** This Court held in Corpn. Bank v. *D.S. Gowda, (1994) 5 SCC 213,* that the directions issued by the Reserve Bank of India have statutory flavour. The Court noted that agricultural finance stands on a different footing for the reason that agriculturists do not have any regular source of income other than the sale proceeds of their crops and therefore agricultural loans have to be treated differently from other loans and borrowings. The Reserve Bank of India has also shown its concern towards agriculturist loanees by devising separate policy to govern them and not permitting capitalisation of accrued interest on agricultural loans except on annual rests or when the loan/instalment has become overdue.
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> 53 and 54. xx xx xx xx
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> 55. During the course of hearing it was brought to our notice that in view of several usury laws and debt relief laws in force in several States private money lending has almost come to an end and needy borrowers by and large depend on banking institutions for financial facilities……
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> (1) to (5) xx xx xx xx
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> (*6*) Agricultural borrowings are to be treated on a pedestal different from others. Charging and capitalisation of interest on agricultural loans cannot be permitted in India except on annual or six-monthly rests depending on the rotation of crops in the area to which the agriculturist borrowers belong.
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> (*7*) Any interest charged and/or capitalised in violation of RBI directives, as to rate of interest, or as to periods at which rests can be arrived at, shall be disallowed and/or excluded from capital sum and be treated only as interest and dealt with accordingly.
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> xx xx xx xx xx"

Therefore, the judgment and decree of the first Appellate Court granting compound interest is set aside and instead it is held that the Bank shall be entitled to compound interest but such interest shall be compounded half yearly.

(HEMANT GUPTA)
JUDGE

FEBRUARY 20, 2015
'D. Gulati'