2025.PHHC:007357

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**IN THE HIGH COURT OF PUNJAB AND HARYANA AT CHANDIGARH**

**RSA-3564-2000**
**Date of decision : 20.01.2025**

S.B.I.KARNAL ....Appellant

Versus

BALVINDER KUMAR ...Respondent

**CORAM: HON'BLE MR. JUSTICE PANKAJ JAIN**

Present : Mr. Sanjeev, Advocate for
Mr. IPS Doabia, Advocate
for the appellant.

None for the respondent.

**PANKAJ JAIN, J. (ORAL)**

Instant appeal is directed against judgment and decree passed by District Judge, Karnal whereby suit filed by the appellant/plaintiff stands decreed and that plaintiff/Bank has been held entitled to recover an amount of Rs.69,957/- with the *pendente lite* and interest @ 13.8% per annum.

2. For convenience, the parties hereinafter are referred to by their original position in the suit i.e. the appellant as the plaintiff and the respondent as the defendant.

3. Plaintiff filed suit seeking recovery of Rs.69,957/-. The suit was based upon a loan agreement under which the defendant availed loan facility under Prime Minister's Rozgar Yojna. It was claimed that the

defendant having failed to pay back the loan, the plaintiff was entitled to recover an outstanding amount of Rs.69,957/- along with interest.

4. Suit was contested by the defendant.

5. Suit was decreed by the Trial Court holding plaintiff entitled to recovery of Rs.69,957/- along with *pendente lite* and future interest @ Rs.13.8%.

6. Dissatisfied with the judgment and decree passed by the Trial Court, plaintiff filed appeal claiming interest at the contractual rate. It was further claimed that the relationship between the parties being purely commercial, the case of the plaintiff/appellant would fall within the proviso appended to Section 34(1) of the Code of Civil Procedure, 1908. He further relies upon judgment passed by this Court in the case of **Joginder Singh vs. State Bank of India and others – CR No.3551 of 1997** to submit that appellant is entitled to recover compound interest and not simple interest as awarded by Courts below.

7. I have heard counsel for the appellant and have carefully gone through records of the case.

8. Appellate Court modified the decree holding the plaintiff entitled to the interest as per the loan agreement, Exhibit P-6. Lower Appellate Court observed as under :

> "In the present case the agreed rate of interest as per composite term loan agreement Ex.P6 was 14% per annum and the amount was to be repaid in monthly instalments. It was provided that the interest rate payable by the borrower shall be subject to the

> changes in the interest rates made by the RBI from time to time. In the present case as per the averments in the suit the rate of interest at the time of institution of the suit was 13.8% per annum. The defendant while appearing as DW1 has admitted his signatures on the documents Ex.P2 to Ex.P12. He also admitted that the quotation was supplied by him to the Bank. The defendant has not been able to rebut the case of the plaintiff by leading any cogent documentary or oral evidence. Thus in view of the authorities reported above the pendente lite interest at the rate of 13.8% per annum should have been awarded from the date of institution of the suit.
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> 7. In the result the appeal is partly allowed with costs and it is ordered that the plaintiff Bank shall be entitled to recover Rs.69957 with pendente lite interest at the rate of 13.8% per annum. The learned counsel for the appellant also argued that the future interest be also awarded at the agreed rate. However, since the loan was under the Prime Minister Rozgar Yogna and the purpose was to help the defendant an educated unemployed youth and the business of the defendant as alleged failed so I deem fit proper to maintain future interest at the rate of 6% per annum as granted by the learned trial court.

9. Dissatisfied plaintiff is in second appeal.

10. Counsel for the appellant is not in position to dispute that as per terms of the contract i.e. loan agreement, Exhibit P-6, "the interest rate shall be as applicable for cash credit advances by the bank from time to time". Meaning thereby, the interest charged was to be at floating rate and not at fixed rate. It is also not in dispute that for the period, the interest as notified by RBI for cash credits, was 13.8% as held by the Appellate Court. In light of terms of contract, no fault can be found with award of rate of interest.

11. Issue of compound interest raised by the counsel representing appellant, is also to abide by the terms of contract. Spelling out the difference between 'compound interest' and 'simple interest' and the powers of court to award interest, Supreme Court in the case of **'State of Haryana vs. S.L. Arora & Co'.** *reported as* **(2010) 3 SCC 690**, observed as under:

> "9. Payment of interest arises in different circumstances. It can be the consideration paid by a borrower to a lender for use of the money lent or made available by the lender. It can be the return given by a bank, financial institution or a company on amounts deposited or invested with them by a customer or constituent. It can be the compensation paid by a person who withholds or defaults in paying an amount or in discharging a liability, when it is due and payable. Interest may be payable in pursuance of a contract, or a provision in a statute, or the fiat of a court or tribunal. It is usually quantified in terms of a percentage of the 'principal' or the 'investment' or the 'amount of liability'. Interest unless otherwise specified, refers to simple interest, that is is interest paid on only the principal and not on any accrued interest.
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> 10. Compound interest refers to a method of charging interest where interest is computed not only on the principal, but also the accured interest. For the purpose, periodical rests are provided for computation of interest, say yearly, or quarterly or monthly. At the end of the first rest, the interest accrued till then is added to the principal, so that for the second interest bearing period, the aggregate of the original principal and interest theron becomes the enchanced principal. At the end of the second rest, the accrued interest on the enhanced principal is added to the enchanced principal so that such further enchanced principal becomes the

principal for charging the interest for the third period. It goes on in this manner until repayment, by progressively enlarging the principal base by adding interest at regular interval. As a result, the debtor is made to pay interest not only on the original principal, but on the interest on the principal, and on the interest upon the interest on the principal and so on.

11. A variant of compound interest, involves limited compounding, where interest is not added to the principal with periodical rests, but only once or twice at agreed stage. For example, where a loan is repayable within one year, if a provision is made in the contract that in the event of the loan not being repaid within one year, the interest which had accrued during the one year period will be added to the principal, and as a consequence, after one year, interest will be payable on the aggregate of the principal and the interest for one year, it is a provision for interest upon interest.

12. Compound interest can be awarded only if there is a specific contract, or authority under a Statute, for compounding of interest. There is no general discretion in courts or tribunals to award compound interest or interest upon interest."

12. Counsel is not in position to dispute that term of contract provides for interest and not compound interest. Apart from this, it will be apt to notice that loan was disbursed by the appellant bank under 'Pradhan Mantri Rozgar Yojna'. PMRY was conceived to generate self employment with focus on nurturing entrepreneurship. In view of plausible objective of the policy, loan transaction cannot be termed as purely commercial as is being projected.

13. In view of above, finding no merit in the present appeal, the same is ordered to be dismissed.

14. Pending application, if any, shall also stand disposed off.

**January 20, 2025** **(Pankaj Jain)**
**Dpr** **Judge**

Whether speaking/reasoned : Yes

Whether reportable : Yes