

# Case Summary

**Case Title:**

Citicorp Maruti Finance Ltd. Vs. S. Vijayalaxmi

**Court and Citation:**

Supreme Court of India

(2012) 1 SCC 1

**Fact of the Case:**

In April 2000, S. Vijayalaxmi agreed to hire a Maruti Omni from Citicorp Maruti Finance Ltd (CMFL) on 60 monthly EMIs of Rs 4,604 each for an overall loan amount of Rs 1,82,396.

Several of her cheques bounced, causing repeated defaults. The finance company cancelled the loan, and asked for full payment. When she did not pay, they took back the car. They prepared an inventory of the contents of the vehicle that had been taken over, got it countersigned by her husband, and sold the vehicle to a third party.

Feeling wronged, Vijayalaxmi filed a consumer complaint before the District Consumer Forum alleging harassment and deficiency in service. The Forum ruled in her favour and awarded compensation. Both the State Commission and NCDRC upheld this decision. The finance company then knocked at the door of the Supreme Court in the form of 'special leave petitions', asking some important questions on a lender's right to take back financed assets and the limits of consumer protection against 'aggressive recovery practices'.

**Issues Involved:**

- (i) Whether repossession and sale of vehicles by finance companies amounts to illegal recovery and deficiency in service?
- (ii) Can financiers rely only on contractual repossession clauses to justify taking possession of a vehicle?
- (iii) Whether consumer fora can scrutinise recovery practice of banks and NBFCs despite contractual clauses allowing repossession?

(iv) Whether repossession of financed vehicles must comply with RBI guidelines and SC precedents?

### **Arguments of the Parties:**

Appellant (Finance Company):

- The Respondent repeatedly defaulted breaching the hire purchase agreement.
- Clause 26 of the agreement gave liberty on repossession upon default.
- Repossession and sale done accordingly as provided by agreement and internal code of conduct.
- Consumer fora overstepped the mark when they infringed upon legitimate contractual rights.

Respondent (Borrower):

- Financial institutions cannot take law into their own hands just because a borrower has defaulted.
- Repossession should be as per lawful procedure & RBI guidelines.
- Banks often resort to using coercive agents causing serious harassment to borrowers.
- Relied on Manager, ICICI Bank Ltd. v. Prakash Kaur, which condemned forcible recovery and required due process to be followed all the time.

### **Finding of the Court:**

Reiterating that the law on forcible repossession was settled by Manager, ICICI Bank Ltd v Prakash Kaur, the apex court upheld that recovering hypothecated property by use of force, threats or coercion is always unacceptable. Banks and NBFCs have to follow RBI guidelines on recovery and any act contrary to that cannot stand in law.

But since circumstances have undergone material changes (the vehicle has already been sold and the finance company had complied with the consumer forum's money directions), there is nothing left for which the appeal can provide an effective relief, hence the apex court disposed of the appeals without going into facts.

### **Ratio Decidendi:**

Reiterating the basic tenet that repossession of financed vehicles should only happen as per law and RBI guidelines. A contractual repossession clause cannot empower financiers to use force or coercion or unlawful means. A lender's right under a HP agreement will continue to remain subservient to the rule of law and procedural fairness. No clause however explicit can override this.

### **Important Observations:**

- Consumer dignity matters. While financial institutions have legitimate recovery rights they should be exercised responsibly and in keeping with law.
- RBI guidelines are binding and not optional. Exist to prevent harassment of borrowers and ensure ethical recovery.
- Consumer fora still maintains jurisdiction over disputes arising out of contracts as well. When allegations of unfair recovery practices come up consumer protection mechanisms are fully at liberty to study their conduct.
- The judgement draws strength from ICICI Bank v. Prakash Kaur, strongly criticising coercive recovery agents and re-affirming the need for fair, transparent recovery mechanism.

### **Practical Significance for Lawyers:**

For Consumer Lawyers: A powerful reminder that even in cases of default borrowers have legal protections and recovery cannot be carried out arbitrarily. Consumer fora can probe the acts of financial institutions irrespective of what a contract says.

For Banking & Finance Lawyers: Relying too much on contractual repossessions may prove costly. Recoveries need to follow RBI rules and judicial pronouncements. Ignoring these could make lenders liable in consumer forum as well as court.

Broader Relevance: It underscores a growing jurisprudence of striking a balance between commercial interest of recovering dues and rights of consumers to fair and dignified treatment – financial entities may recover their money, but they need to do so legally, fairly and with dignity of the individual in mind

### **Conclusion:**

Citicorp Maruti Finance Ltd. v. S. Vijayalaxmi is a key decision in Indian consumer and banking law. While not inventing a new rule, the Supreme Court unequivocally reinforced that loan recovery should always occur lawfully, in line with RBI regulations, and contractual claims can never prevail over the rule of law. By restating the dicta from ICICI Bank v. Prakash Kaur, the Court fortified consumer protections for loan recoveries, and warned financiers that borrowers (even defaulting ones) deserve dignity and fair procedure.

### **Reference:**

- <https://www.casemine.com/judgement/in/5609af0fe4b01497114157c9>
- <https://indiankanoon.org/doc/956414/>