

Negotiable Instruments Act, 1881 (26 of 1881) S. 138 – Security cheque – A cheque issued as security pursuant to a financial transaction cannot be considered as a worthless piece of paper under every circumstance – ‘Security’ in its true sense is the state of being safe and the security given for a loan is something given as a pledge of payment – It is given, deposited or pledged to make certain the fulfilment of an obligation to which the parties to the transaction are bound – If in a transaction, a loan is advanced and the borrower agrees to repay the amount in a specified timeframe and issues a cheque as security to secure such repayment; if the loan amount is not repaid in any other form before the due date or if there is no other understanding or agreement between the parties to defer the payment of amount, the cheque which is issued as security would mature for presentation and the drawee of the cheque would be entitled to present the same – On such presentation, if the same is dishonoured, the consequences contemplated under [Section 138](#) and the other provisions of N.I. Act would flow.

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[PLRonline 498486](#)

[2021 SCeJ 1252, \(2021-4\)204 PLR 687 \(SC\)](#)