

FIN-O-SCOPE

17th April, 2025



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Supreme Court Lays Down Guiding Principles for Construction of Deeds

In a recent judgment that adds clarity to the principles governing the interpretation of legal documents, the Supreme Court of India has reiterated and summarised the well-established tools for the construction of deeds. The Court was adjudicating a Civil Appeal challenging the decision of the Bombay High Court, which had upheld the judgment of the Appellate Bench.



Top Trends

- Supreme Court decided a civil appeal in April 2025.
- The dispute was about rights over a hotel business.
- Main issue: Was the plaintiff a tenant or just running the hotel?
- Agreement was made in 1967 between plaintiff and hotel owner.
- Plaintiff claimed tenancy under Bombay Rent Act.

Top Trends

- Owner claimed it was only a conducting agreement to run the hotel.
- Trial court supported the plaintiff.
- Appellate court and High Court reversed the decision.
- Supreme Court agreed with appellate and High Court.
- It said the plaintiff was not a tenant, only a business conductor.
- Payment made was called “royalty”, not “rent”.
- Contract used terms like “owner” and “conductor”, not “landlord” or “tenant”.
- The agreement allowed use of hotel furniture and equipment.
- Plaintiff had to return everything after the agreement ended.
- There was no transfer of property possession.
- Oral evidence was not allowed to change the written contract.
- Sections 91 & 92 of Evidence Act were applied.

The Division Bench, comprising Justice Pankaj Mithal and Justice S.V.N. Bhatti, systematically outlined the framework to be applied while interpreting contracts and deeds. The Court highlighted a three-tiered approach:

Literal Rule of Construction:

- The contract must first be interpreted using the plain, ordinary, and grammatical meaning of its terms. This approach emphasizes giving effect to the text as written, without introducing external assumptions.

Golden Rule of Construction:

- If a literal reading of the deed results in an absurdity or inconsistency, courts are permitted to depart from the strict grammatical interpretation. In such cases, the language may be slightly modified to give effect to the apparent intention of the parties, while preserving the overall coherence of the document.

Purposive Interpretation:

- As a final layer, the deed may be interpreted in light of its purpose, object, and surrounding context. This purposive construction aims to fulfil the intended function of the contract, but the Court emphasized that this approach must be employed with caution to avoid rewriting the agreement under the guise of interpretation.

The Bench further observed:

- “The construction of a deed is, generally speaking, a matter of law. However, when there is an ambiguity in the deed, determining its meaning becomes a mixed question of fact and law.”
- This nuanced view is grounded in Sections 91 and 92 of the Indian Evidence Act, 1872, which govern the admissibility of documentary evidence and the extent to which oral evidence may supplement or explain written terms. These provisions reinforce the primacy of written contracts while allowing for exceptions in cases of ambiguity or incompleteness.

Key Takeaway

The judgment serves as a valuable restatement of interpretive doctrines for professionals across legal, tax, and commercial domains. Whether drafting or litigating contractual disputes, a methodical application of these rules—literal, golden, and purposive—can help discern the true intent of parties and uphold the sanctity of written agreements.

[Click here to download copy of Supreme Court order.](#)

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Top Trends

- Agreement clearly mentioned "conducting hotel business", not tenancy.
- Plaintiff was responsible for paying electricity, water, wages, etc.
- Owner could inspect the hotel anytime.
- Agreement said plaintiff cannot change the business or sublet.
- On termination, plaintiff had to return hotel premises and items.
- Court said using the word "license" doesn't make someone a tenant.
- Even though agreement ran for years, it didn't give ownership rights.
- Furniture, utensils, and fixtures were temporarily given.
- Agreement said plaintiff would pay royalty, not rent.
- Sales tax registration didn't prove tenancy.