2026 INSC 102

REPORTABLE

IN THE SUPREME COURT OF INDIA
CIVIL APPELLATE JURISDICTION

CIVIL APPEAL No. 7187 OF 2022

M/S. RHYTHM COUNTY ... APPELLANT

VERSUS

SATISH SANJAY HEGDE & ORS. ... RESPONDENTS

WITH

CIVIL APPEAL No. 7974 OF 2022

M/S KEY STONE PROPERTIES ...APPELLANT

VERSUS

SHASHIKANT VITHALKAMBLE & ORS. ...RESPONDENTS

J U D G M E N T

DIPANKAR DATTA, J.

THE APPEALS

1. The present civil appeals arise out of disposal of two separate original applications by the National Green Tribunal, Western Zone Bench, Pune[1], involving similar facts and circumstances. The orders of disposal are of

[1] NGT

varying dates. We propose to decide these appeals by this common judgment and order.

2. The lead appeal has been filed by the project proponent, i.e., M/s. Rhythm County[2], challenging the order dated 22.08.2022 passed by the NGT in Original Application No. 14 of 2021 (WZ). *Vide* the impugned order, the NGT held that RHYTHM had violated the environmental norms and carried out construction without obtaining Environmental Clearance[3], for which it was liable in a sum of Rs. 5,00,00,000/- as compensation. Appellant was, accordingly, directed to pay such compensation within two months to the Maharashtra Pollution Control Board[4].

3. The connected appeal is filed by another project proponent, i.e., M/s. Key Stone Properties[5]. It challenges the order dated 01.09.2022 passed by the NGT on Original Application No. 13/2021. *Vide* the impugned order, the NGT held that KEYSTONE had violated the environmental norms, including raising construction without obtaining requisite permissions. Like RHYTHM, KEYSTONE was directed to pay compensation in a sum of Rs. 4,47,42,188/- within two months to the MPCB.

FACTUAL MATRIX

4. The facts, which would be germane for the disposal of the present appeals, are adumbrated as follows:

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[2] RHYTHM
[3] EC
[4] MPCB
[5] KEYSTONE

LEAD APPEAL

a. Appellant RHYTHM, a partnership firm, undertook a residential and commercial construction project titled *"Rhythm County"* at Autade Handewadi, Pune, within the jurisdiction of the Pune Metropolitan Regional Development Authority[6]. The project was granted EC on 27.11.2017 under the Environmental Impact Assessment[7] Notification, 2006[8], permitting a total built-up area of 1,45,682.28 square metres. Upon issuance of requisite certificates, the construction commenced in 2018.

b. RHYTHM asserts that construction initially proceeded in conformity with the EC and the sanctioned plans. On 31.01.2020, however, Maharashtra Pollution Control Board[9] issued a show-cause notice alleging that construction had commenced without securing valid statutory consents. This was followed by an order dated 06.07.2020 whereby the MPCB refused Consent-to-Establish[10] under the Water (Prevention and Control of Pollution) Act, 1974[11] and the Air (Prevention and Control of Pollution) Act, 1981[12], citing excess construction beyond the sanctioned area and the absence of revalidated consent. A stop-work direction was also issued on the same date.

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[6] PMRDA
[7] EIA
[8] Notification
[9] MPCB
[10] CTE
[11] Water Act
[12] Air Act

c. Disputing these allegations, on 18.07.2020, RHYTHM applied for modification of the EC before the State Level Environment Impact Assessment Authority[13], Maharashtra. While that application remained pending for consideration, the first respondent, a local resident of the area, approached the NGT by instituting O.A. No. 14 of 2021 (WZ), alleging that RHYTHM had undertaken substantial construction activity without valid EC and in disregard of statutory safeguards under the environmental laws.

d. In the proceedings before the NGT on 08.06.2021, a Joint Committee was constituted to ascertain the factual position. The Committee, after inspection of the site and examination of records, reported certain deviations from the sanctioned plan. These included the construction of a clubhouse of 431.91 sq. m., not expressly covered by the original EC and continuation of construction activity despite the stop-work direction issued by the MPCB. At the same time, the record indicates that RHYTHM was subsequently granted a conditional CTE by the MPCB and that later site inspections recorded compliance with prescribed environmental safeguards.

CONNECTED APPEAL

e. In the connected appeal, appellant KEYSTONE is a developer undertaking a residential housing project situated at Survey No. 16/3, Punawale, Pune, comprising multiple residential buildings.

[13] SEIAA

Construction activities were undertaken over a period commencing prior to obtaining prior EC under the EIA Notification, 2006.

f. Thereafter, in terms of the notification dated 14.03.2017 and subsequent office memoranda issued by the Ministry of Environment, Forest and Climate Change[14] providing for regularisation of violation cases, the appellant applied for post-facto EC, which was granted by the SEIAA, Maharashtra, on 24.01.2020, subject to conditions including preparation and implementation of a remediation plan and a natural and community resource augmentation plan.

g. Based on appraisal by the State Expert Appraisal Committee, the cost of remediation and community augmentation was assessed at Rs. 1,76,00,000/- and the appellant was directed to furnish a bank guarantee of Rs. 1,76,00,000/- in favour of MPCB towards implementation of the said plans, which was furnished on 29.10.2021, and the plans were submitted to the District Collector, the Municipal Corporation and MPCB on 08.11.2021.

h. The appellant also applied for statutory consents under the Water and Air Acts. After initial refusal owing to non-submission of bank guarantee, CTE was granted on 17.08.2020, and Consent to Operate[15] was granted on 01.02.2022, after inspection and verification of pollution control measures.

[14] MoEF&CC
[15] CTO

i. In the meantime, Original Application No. 13 of 2021 was filed on 13.01.2021 before the NGT by a local resident (Respondent 1), alleging that the project was being executed in violation of environmental norms and without requisite statutory clearances. Upon admission of the application on 08.06.2021, the NGT constituted a Joint Committee comprising representatives of MoEF&CC, CPCB, IIT Bombay and MPCB to inspect the site and verify compliance.

j. The Joint Committee conducted site inspections and submitted its report on 12.01.2022, noting, *inter alia*, that EC had since been obtained under the violation regularisation mechanism; that the bank guarantee of Rs.1,76,00,000/- had been furnished; and that pollution control facilities had been provided. However, the Committee also recommended imposition of additional environmental compensation by applying guidelines issued by the CPCB for computation of environmental damage.

PROCEEDINGS BEFORE THE NGT

5. In the matter involving RHYTHM, by its order dated 22.08.2022, the NGT held that it had carried out construction activity in violation of environmental norms and without obtaining the mandatory consents under the Air and Water Acts. NGT rejected RHYTHM's contention that such consents were not required, holding that statutory compliance could not be diluted on the basis of interpretative convenience and that

RHYTHM had continued construction activities even after the MPCB had issued a stop-work direction.

6. Accepting the findings of the Joint Committee, the NGT concluded that the violations stood established. While the Committee had assessed environmental compensation at Rs. 2,39,53,125/-, the NGT found the amount to be inadequate. Following the principle laid down in ***M/s. Goel Ganga Developers India Pvt. Ltd. v. Union of India***[16] and taking note of the overall project cost, stated to be approximately Rs. 3,35,00,00,000/-, as well as applying the principle that environmental compensation must bear a reasonable nexus with the scale and impact of the project, the NGT enhanced the compensation to Rs. 5,00,00,000/-.

7. In addition to directing deposit of the enhanced compensation, the NGT issued directions to the SEIAA to undertake institutional corrective measures so as to strengthen monitoring and enforcement mechanisms.

8. In the matter where KEYSTONE was involved, the NGT after hearing the parties, passed an order dated 01.09.2022 accepting that the EC granted to it under the notification dated 14.03.2017 was valid. Furthermore, on the issue of grant of enhanced environmental compensation, it was noticed that the environmental clearance in favour of KEYSTONE had been accorded under the one-time violation window. The NGT, however, took note of the fact that such clearance was conditional upon the furnishing of a bank guarantee to the tune of Rs. 1,76,00,000/-

[16] (2018) 18 SCC 257

towards the implementation of the Remediation Plan and the Natural and Community Resource Augmentation Plan. Finding the said deposit sufficient to cover past violations, NGT noted that no further environmental compensation was warranted.

9. Be that as it may, the NGT found that KEYSTONE had carried out construction without CTE from 05.06.2013 to 17.08.2020; had continued construction between 04.09.2019 and 17.08.2020 despite a closure notice; had proceeded without CTO, and had handed over possession to occupants, issuing the first possession letter on 18.03.2016. These acts were held to constitute distinct and serious violations of environmental norms.

10. As a corollary, the NGT observed that the Joint Committee had correctly quantified the environmental compensation at Rs. 4,47,42,188/-. Consequently, KEYSTONE was directed to deposit the said amount with the MPCB within two months.

11. On these findings and directions, the Original Applications were disposed of.

SUBMISSIONS ON BEHALF OF THE APPELLANT / RHYTHM IN CIVIL APPEAL NO.7187 OF 2022

12. Mr. Saurabh Mishra, learned senior counsel appearing on behalf of RHYTHM, submitted that RHYTHM had acted in accordance with the notification issued by the Ministry of Environments, Forest and Climate Change dated 09.12.2016 which, at the relevant time, exempted

residential construction projects having a built-up area below 1.5 lakh square metres from the requirement of obtaining CTE under the Air and Water Acts.

12.1. It was urged that in conformity with the said notification, RHYTHM had obtained an EC from the PMRDA, the designated local authority, and that the construction was commenced only thereafter. According to Mr. Mishra, these steps clearly evinced RHYTHM'S *bona fide* intent to comply with the prevailing regulatory framework.

12.2. It was further submitted that uncertainty arose only after the NGT stayed the notification dated 09.12.2016 on 08.12.2017. In response thereto, *suo motu*, RHYTHM applied to the MPCB for CTE. It was contended that despite RHYTHM having already obtained EC from the PMRDA and having furnished all relevant project particulars to the MPCB, a show cause notice came to be issued alleging absence of EC. It was argued that owing to the intervening nationwide lockdown commencing on 24.03.2020, the MPCB did not conduct a site inspection, and without verification of the documents placed on record, declined the application for CTE by order dated 06.07.2020.

12.3. It was brought to our notice that thereafter, RHYTHM submitted a fresh application for CTE on 10.02.2021, which was granted by the MPCB on 12.05.2021 after due site inspection and verification of records, including the EC obtained under the notification dated 09.12.2016. Pursuant thereto, RHYTHM furnished a bank guarantee of Rs. 1,00,000, as directed, and a restart permission was issued by the MPCB on

14.08.2021. Mr. Mishra contended that these material developments were not accorded due consideration by the NGT while passing the impugned order.

12.4. It was further contended that RHYTHM was subsequently granted EC by the SEIAA on 12.04.2023 bearing Identification No. EC23B039MH182373 for a built-up area of 1,45,682 square metres, pursuant to the Terms of Reference issued on 08.02.2021, a fact which has been noticed in the impugned order itself. It was also pointed out that a further EC was granted on 03.12.2024 *vide* Identification No. SIA/MH/INFRA2/469190/2024 for a built-up area of 1,95,771.01 square metres.

12.5. Mr. Mishra vehemently submitted that the NGT itself recorded that the alleged violations pertained only to Commercial Building 'A', Commercial Building 'B' and a clubhouse, together having a built-up area of 431.91 square metres, which did not cross the threshold of 1.5 lakh square metres stipulated under the 2016 notification. On this premise, it was urged that the NGT erred in accepting the Joint Committee's report which proceeded to apply the Central Pollution Control Board[17] compensation formula meant for highly polluting industrial units. Mr. Mishra submitted that such acceptance effectively amounted to outsourcing the NGT's adjudicatory function, particularly when the Committee itself acknowledged that the CPCB formula was inapplicable to residential projects.

[17] CPCB

12.6. Sequentially, our attention was invited to the CPCB report on determination of environmental compensation, which delineates different categories of cases in which compensation may be computed. It was pointed out that paragraph 1.5.1 of the report recommends application of the formula only to categories (a), (b) and (c), (wherein, (a), (b) and (c) are schemes for utilization of environmental compensation funds), whereas paragraph 1.5.2 contemplates that in respect of other categories, compensation, if any, should be determined on the basis of a detailed investigation by expert institutions. Notwithstanding this, the Joint Committee, without assigning any reasons, applied the formula to the present case. It was urged that the NGT, in turn, accepted the report without independent scrutiny and enhanced the compensation to Rs. 5,00,00,000.

12.7. Mr. Mishra contended, without prejudice to RHYTHM'S challenge to the applicability of the CPCB formula, that even on a notional application thereof, the compensation would not exceed Rs. 2,93,00,000/-, of which Rs. 1,00,00,000/- already stands deposited pursuant to the order dated 21.10.2022 passed by this Court. It was, therefore, submitted that the determination of compensation at Rs. 5,00,00,000/-, and its affirmation by the NGT in the absence of cogent reasoning, is legally unsustainable warranting interference by this Court.

ARGUMENTS ON BEHALF OF APPELLANT / KEYSTONE IN CIVIL APPEAL NO.7974 OF 2022

13. Mr. Dhruv Mehta, learned senior counsel argued the appeal on behalf of KEYSTONE. He assailed the levy of environmental compensation quantified at Rs. 4,47,42,188/– by the NGT by order dated 01.09.2022.

13.1. It was prefatorily contended that the imposition of liability must have clear statutory moorings, coupled with cogent reasoning, and ought to reflect fairness. According to Mr. Mehta, none of these foundational requirements stood satisfied which could have persuaded the NGT to pass the impugned order.

13.2. Mr. Mehta urged that while the NGT is undoubtedly empowered to constitute an Expert or Joint Committee to aid it in matters involving technical complexity or fact-finding, such a committee can neither supplant nor substitute the adjudicatory function statutorily vested in the NGT. Reliance was placed on consistent judicial pronouncements emphasising that the report of an expert body is not binding on the NGT and cannot be accepted mechanically or at face value without independent judicial scrutiny.

13.3. It was further contended that KEYSTONE, being the project proponent, retains an indefeasible right to question the findings of an expert committee, including alleged violations of environmental law and the conclusions drawn with regard to environmental damage, whether actual or apprehended.

13.4. The right to object to expert evidence, it was submitted, is an integral facet of the principles of natural justice. Where objections are duly raised, the NGT is obliged to apply its judicial mind, examine each objection with care, and render a reasoned and speaking order indicating conscious acceptance or rejection of the committee's findings.

13.5. Mr. Mehta pressed into service a line of reasoning, relying on ***Kantha Vibhag Yuva Kohli Samaj Parivartan Trust & Ors. v. State of Gujarat & Ors.***[18]*,* that an expert committee's role is confined to fact-finding and technical assistance. Its report constitutes only a piece of evidence, and the ultimate adjudicatory decision must necessarily reflect independent application of mind by the NGT to the material on record, including the objections raised.

13.6. It was pointed out that the NGT has relied upon the methodology formulated by the CPCB in its report dated 31.05.2019, prepared pursuant to the order dated 03.08.2018 passed in *Paryavaran Suraksha Samiti & Anr. v. Union of India & Ors.* in O.A. No. 593 of 2017.

13.7. It was argued that, by its own terms, the CPCB formula is intended to apply exclusively to industrial units and has neither been designed nor prescribed for residential projects such as that of KEYSTONE. Assuming *arguendo* that the CPCB methodology could be extended to the present case, such application could arise only upon the

[18] (2023) 13 SCC 525

issuance of directions or notices by the CPCB under the Environment (Protection) Act, 1986, which admittedly has not occurred in the present case. On this premise, it was contended that the NGT erred in sustaining the Joint Committee's computation of compensation founded on an inapplicable formula.

13.8. Attention was drawn to the CPCB report itself, which enumerates specific contingencies where environmental compensation may be levied. It was submitted that none of the identified contingencies are attracted on the facts of the present case, rendering the computation of compensation wholly mechanical and legally untenable.

13.9. Mr. Mehta submitted before us that the Joint Committee itself recorded that *"such listed instances may not be directly applicable in the current matter for arriving at the damage amount."* Notwithstanding this express caveat, it was argued that the Committee proceeded to compute compensation using the same methodology.

13.10. It was also argued that this approach is inherently self-contradictory and perverse. Having acknowledged the inapplicability of the formula, the Joint Committee could not have invoked it to arrive at the said compensation figure. This, it was argued, demonstrates non-application of mind. Despite this categorical admission by the Joint Committee, the NGT, while upholding the Committee Report, failed to notice this crucial aspect.

13.11. According to Mr. Mehta, a determination of damages founded on a methodology declared inapplicable by the expert body itself could not have been sustained. It was also submitted that the CPCB formula lacks statutory sanction under either the Water Act or the Air Act, both of which constitute self-contained codes providing for their own penal consequences.

13.12. It was emphasised that a committee report can, at best, contain recommendations and cannot be adopted mechanically. The NGT is required to independently assess its applicability. By way of illustration, it was submitted that the MPCB circular dated 12.07.2022 prescribes a penalty of three times the consent fee for belated applications for CTE/Consent to Operate, a statutory mechanism directly applicable to the present facts, yet, wholly overlooked.

13.13. Reliance was placed on ***DPCC v. Lodhi Property Co. Ltd.***[19], wherein this Court expressly criticised the CPCB formula, holding that it lacks legal sanctity, requires serious re-examination, and must be incorporated into statutory rules or regulations before being applied. It was urged that the ratio of the said decision squarely governs the present case.

13.14. It was contended that unless and until a legally binding procedure is incorporated in subordinate legislation, one that duly incorporates the basic principles of natural justice, no compensation can be recovered on the basis of such ad hoc formulations.

[19] 2025 SCC OnLine SC 1601

13.15. It was submitted that the impugned demand of compensation against KEYSTONE, being premised solely on the CPCB formula, is unsustainable in law. No compensation can be collected until a proper statutory framework is put in place, which ensures both transparency and compliance with the principles of natural justice. The reasons assigned by the NGT are distinct from the reasons recorded in the Joint Committee in its report.

13.16. It was further contended that the levy of compensation in excess of Rs. 4,47,00,000/- is *ex facie* arbitrary and contrary to settled principles of environmental jurisprudence. Reliance was placed on ***Mantri Techzone Pvt. Ltd. v. Forward Foundation & Ors.***[20], to submit that any determination of environmental compensation must be informed by the principles of sustainable development, the precautionary principle, and the polluter pays principle.

13.17. Drawing support from ***Deepak Nitrite Ltd. v. State of Gujarat & Ors***.[21], it was urged that environmental compensation can be justified only upon a specific finding of actual environmental damage. Mere violation of statutory provisions, in the absence of demonstrable harm, does not *ipso facto* warrant compensation. Reliance was also placed on ***Grasim Industries Ltd. v. State of Madhya Pradesh***[22], to emphasise the necessity of affording a meaningful opportunity of hearing prior to the imposition of any penalty.

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[20] (2019) 18 SCC 494
[21] (2004) 6 SCC 402
[22] C.A. No. 7004-7005/2021

13.18. It was further argued that the jurisprudence of this Court does not recognise any uniform or straitjacket formula for the levy of environmental compensation. While in certain cases reference has been made to turnover-based computation, such methodology has been expressly disapproved in others.

13.19. On the strength of ***Benzo Chem Industrial Pvt. Ltd. v. Arvind Manohar Mahajan & Ors.***[23], it was contended that turnover or income of a project proponent bears no rational nexus to the quantum of environmental compensation, and any mechanical linkage between the two cannot be sustained.

13.20. Relying again on ***Deepak Nitrite Ltd.*** (supra), it was argued that while it may be open for the Court to consider whether 1% of the turnover could constitute a fair basis for computation, such an approach must be necessarily linked to the demonstrable environmental damage and not to be applied in a routine or mechanical manner.

13.21. It was argued that in ***Vellore District Environment Monitoring Committee v. District Collector, Vellore***[24], this Court while passing a detailed order concerning implementation of the award passed by the Loss of Ecology (Prevention & Compensation) Authority, recorded the submission that the CPCB has devised a formula for determining environmental compensation and further

[23] C.A. No.9202-9203/2022
[24] 2025 SCC OnLine SC 207

noted that the NGT, in practice, has primarily adopted only two methodologies, namely: imposing compensation as 5-10% of the project cost or as a certain percentage of the turnover. It was, however, argued that the Court has consciously refrained from laying down any binding principle on this aspect.

13.22. On an overall conspectus, it was contended by Mr. Mehta that there exists no uniform principle for the levy of environmental compensation, and furthermore that these inconsistent approaches towards the computation of compensation necessitates the formulation of clear statutory rules and regulations.

13.23. Premised on the submissions so advanced, Mr. Mehta prayed that the imposition of compensation of Rs. 4,47,42,188/- against KEYSTONE is unsustainable.

SUBMISSIONS ON BEHALF OF THE RESPONDENTS

14. Notices were issued to the original applicant/R1 in both the appeals. In the lead appeal, the notice was returned unserved with the endorsement "address cannot be located". However, in the connected appeal, service upon the original applicant/R1 was duly effected. None appeared on his behalf. Thus, we have heard Ms. Aishwarya Bhati, learned Additional Solicitor General, appearing for the Union of India in both the appeals.

15. Ms. Bhati submitted that the findings returned by the NGT are founded on a careful appraisal of the factual matrix and the statutory framework governing environmental protection. According to her, the violations recorded against the appellants are neither trivial nor technical in

nature, but constitute substantive departures from mandatory environmental safeguards, thereby justifying the invocation of the 'polluter pays' principle in its full amplitude.

16. While asserting that the orders impugned in these appeals are unexceptionable, Ms. Bhati contended that the appeals are without merit and the same may be dismissed.

QUESTIONS OF LAW

17. Having heard learned senior counsel for the parties and upon perusal of the record, the substantial questions of law arising for our consideration in these appeals, are:

i. Whether, in the absence of a legislatively prescribed framework for quantification of environmental compensation, the NGT could enhance compensation on the basis of project cost?

ii. Whether the NGT, in exercise of its powers under Sections 15, 17 and 20 of the National Green Tribunal Act, 2010[25], is competent in law to adopt the turnover or project cost of a project proponent *inter alia* as a relevant yardstick for the computation of environmental compensation?

ANALYSIS

18. We have carefully considered the submissions advanced on behalf of the appellants and examined the materials placed on record. Though the appeals emanate from facts-laden proceedings, the controversy before

[25] NGT Act

us lies in a narrow compass. The determinative issue is whether the NGT, while exercising its jurisdiction under the NGT Act, acted within the bounds of law in sustaining and enhancing the levy of environmental compensation in the facts established against the appellants.

19. The contours of the controversy relating to the computation of environmental compensation are no longer *res integra*. The answer to the aforesaid question is to be found within the four corners of the statute itself. The NGT Act is a special enactment intended to provide effective and expeditious adjudication of environmental disputes and to ensure restitution of the environment. The powers conferred upon the NGT are, by legislative design, wide, flexible, and principle-oriented.

20. Section 15 of the NGT Act delineates the relief and remedy which the NGT is empowered to grant. Sub-section (1) thereof provides that:

> The Tribunal may, by an order, provide—
> (a) relief and compensation to the victims of pollution and other environmental damage arising under the enactments specified in Schedule I;
> (b) restitution of property damaged; and
> (c) restitution of the environment for such area or areas, as the Tribunal may think fit.

21. The language employed by the Parliament is of considerable amplitude. The expression *"as the Tribunal may think fit"* is indicative of a conscious legislative choice to repose discretion in the NGT to mould relief in a manner commensurate with the nature and gravity of environmental harm.

22. Furthermore, the guiding normative framework within which these powers are to be exercised, is set out in Section 20 of the NGT Act, which provides that:

> The Tribunal shall, while passing any order or decision or award, apply the principles of sustainable development, the precautionary principle and the polluter pays principle.

23. In light of the above, the appellants' arguments that the NGT is denuded of authority to quantify compensation in the absence of a legislatively prescribed or delegated formula, although attractively canvassed, falters when tested against the plain statutory text.

24. The law on this score being well-crystallised, the core of the dispute, as projected before us, centres around the appellants' contention that turnover or project cost cannot be taken as a metric for the determination of environmental compensation.

25. We are unable to accede to such a submission. Neither the NGT Act nor the jurisprudence of this Court calls for the adoption of a uniform formula for the quantification of environmental compensation; on the contrary, the statutory scheme as discussed in the previous paragraphs, vests the NGT with the discretion to mould the relief guided by the 'polluter pays' principle, having due regard to the scale of the offending activity and the capacity of the violator.

26. In cases relating to protection of environment, linking a company's scale of operations (like turnover, production volume, or revenue generation) to the environmental harm can be a powerful factor for determining compensation. Bigger operations signify a bigger footprint. Larger scale

often means more resource use, more emissions, more waste leading to more environmental stress. If a company profits more from its scale, it is logical that it bears more responsibility for the environmental costs. Linking scale to impact sends a message that bigger players need to play by greener rules.

27. If a company has a high turnover, it reflects the sheer scale of its operations. Such a company, if found to contribute generously to environmental damage, its turnover can have a direct co-relation with the extent of damage that is caused. Thus, in our considered opinion, to contend that turnover can never form a relevant factor in quantifying compensation to match the magnitude of harm is fallacious.

28. It would be apposite, at this juncture, to advert to the decision of this Court in ***Goel Ganga Developers*** *(supra).* There, this Court, while dealing with cases of flagrant environmental violations, has laid down that the outer limit of damages could extend up to 5% of the total project cost, in general. Since the aforesaid principle has a direct bearing on the controversy at hand, the relevant paragraph is extracted hereunder:

> **64.** Having held so we are definitely of the view that the project proponent who has violated law with impunity cannot be allowed to go scot-free. This Court has in a number of cases awarded 5% of the project cost as damages. This is the general law. However, in the present case we feel that damages should be higher keeping in view the totally intransigent and unapologetic behaviour of the project proponent. He has manoeuvred and manipulated officials and authorities. Instead of 12 buildings, he has constructed 18; from 552 flats the number of flats has gone up to 807 and now two more buildings having 454 flats are proposed. The project proponent contends that he has made smaller flats and, therefore, the number of flats has increased. He could not have done this without getting fresh EC. With the increase in the number of flats the number of persons residing therein is bound to increase. This will impact the amount of water

> requirement, the amount of parking space, the amount of open area, etc. Therefore, in the present case, we are clearly of the view that the project proponent should be and is directed to pay damages of Rs 100 crores or 10% of the project cost, whichever is more. We also make it clear that while calculating the project cost the entire cost of the land based on the circle rate of the area in the year 2014 shall be added. The cost of construction shall be calculated on the basis of the schedule of rates approved by the Public Works Department (PWD) of the State of Maharashtra for the year 2014. In case the PWD of Maharashtra has not approved any such rates then the Central Public Works Department rates for similar construction shall be applicable. We have fixed the base year as 2014 since the original EC expired in 2014 and most of the illegal construction took place after 2014. In addition thereto, if the project proponent has taken advantage of transfer of development rights (for short "TDR") with reference to this project or is entitled to any TDR, the benefit of the same shall be forfeited and if he has already taken the benefit then the same shall either be recovered from him or be adjusted against its future projects. The project proponent shall also pay a sum of Rs 5 crores as damages, in addition to the above for contravening mandatory provisions of environmental laws.
>
> (emphasis ours)

29. Tested on the anvil of the aforesaid principle, the contention advanced on behalf of RHYTHM that the compensation imposed in the present case is excessive is wholly misconceived. Even if the benchmark of 5% is applied to the total project cost of Rs. 3,35,00,00,000/-, the resultant figure would far exceed the amount presently directed to be paid. In fact, the compensation imposed in the instant case works out to barely 1.49% of the project cost. Such a measure, viewed in the backdrop of the environmental transgressions found to have been committed, can neither be characterised as arbitrary nor disproportionate, much less unreasonable.

30. It is cardinal to note that while adjudicating the matter where RHYTHM was a respondent, the NGT consciously adopted the project cost as the

relevant yardstick for quantification of environmental compensation. Relying upon the principle enunciated by this Court in ***Goel Ganga Developers India*** (supra), the NGT proceeded on the premise that environmental compensation, in cases involving large-scale real estate development undertaken in breach of statutory safeguards, ought not to be illusory and, as a rule of prudence, should not fall below 1.5% of the total project cost. In the present case, the admitted project valuation being approximately Rs. 3,35,00,00,000/-, the NGT found the amount of Rs. 2,39,53,125/-, as recommended by the Joint Committee to be grossly inadequate to reflect the scale and impact of the violations. It was in this backdrop, and in exercise of its remedial jurisdiction under Sections 15 and 20 of the NGT Act, that the NGT enhanced the compensation to Rs. 5,00,00,000/- in line with the dictum in ***Goel Ganga Developers*** (supra), ensuring a rational nexus between the economic magnitude of the project and the deterrent as well as restorative objectives underlying the 'polluter pays' principle.

31. Furthermore, in our opinion, the jurisprudence of this Court, in fact, lends credence to this statutory understanding. Apart from ***Goel Ganga Developers*** (supra), this Court in ***Deepak Nitrite Ltd.*** (supra) while reiterating the 'polluter pays' principle cautioned that compensation must bear a broad and rational correlation with both the magnitude and capacity of the enterprise as well as the harm caused. What the decision holds is evident from the following paragraph:

> **6.** The fact that the industrial units in question have not conformed with the standards prescribed by CPCB, cannot be seriously disputed in these

> cases. But the question is whether that circumstance by itself can lead to the conclusion that such lapse has caused damage to environment. No finding is given on that aspect which is necessary to be ascertained because compensation to be awarded must have some broad correlation not only with the magnitude and capacity of the enterprise but also with the harm caused by it. Maybe, in a given case the percentage of the turnover itself may be a proper measure because the method to be adopted in awarding damages on the basis of "polluter-to-pay" principle has got to be practical, simple and easy in application. The appellants also do not contest the legal position that if there is a finding that there has been degradation of environment or any damage caused to any of the victims by the activities of the industrial units certainly damages have to be paid. However, to say that mere violation of the law in not observing the norms would result in degradation of environment would not be correct.
>
> (emphasis ours)

32. At this juncture, we also find it apposite to note that the aforesaid exposition does not elevate turnover into an inflexible or universal metric for the calculation of environmental compensation by giving a ruling in emphatic terms. Rather, it recognises turnover as a permissible indicium conditioned by the facts of a given case and the necessity of ensuring that the compensation imposed is neither illusory nor disproportionate. Where the scale of operations itself bears upon the extent of environmental stress and the violator's economic capacity, turnover may legitimately inform the quantum, provided the NGT applies its mind to the surrounding circumstances.

33. We are conscious that this Court in ***Research Foundation for Science (18) v. Union of India***[26] had the occasion to consider ***Deepak Nitrite*** (supra). What was observed reads thus:

> **30.** The observations in *Deepak Nitrite Ltd.* v. *State of Gujarat* that "mere violation of the law in not observing the norms would result in degradation of environment would not be correct" (SCC p. 408, para 6) is evidently

[26] (2005) 13 SCC 186

> confined to the facts of that case. In the said case the fact that the industrial units had not conformed with the standards prescribed by the Pollution Control Board was not in dispute but there was no finding that the said circumstance had caused damage to the environment. The decision also cannot be said to have laid down a proposition that in the absence of actual degradation of environment by the offending activities, the payment for repair on application of the polluter-pays principle cannot be ordered. The said case is not relevant for considering cases like the present one where offending activities have the potential of degrading the environment. In any case, in the present case, the point simply is about the payments to be made for the expenditure to be incurred for the destruction of imported hazardous waste and amount spent for conducting tests for determining whether it is such a waste or not. The law prescribes that on the detection of PCBs in the furnace or lubricating oil, the same would come within the definition of hazardous waste. Apart from polluter-pays principle, support can also be had from Principle 16 of the Rio Declaration, which provides that national authorities should endeavour to promote the internalisation of environmental costs and the use of economic instruments, taking into account the approach that the polluter should, in principle, bear the cost of pollution, with due regard to the public interests and without distorting international trade and investment.

34. ***Deepak Nitrite*** (supra) and ***Research Foundation for Science (18)*** (supra) are decisions of coordinate Benches. Technically, both decisions would bind us. However, the latter decision cannot be read as if it overrules the former decision. Reading paragraph 30 of ***Research Foundation for Science (18)*** (supra) on its own terms referring to ***Deepak Nitrite*** (supra), it appears that *"facts of that case"* and *"said case is not relevant for considering cases like the present one"* are sufficient to draw the conclusion that ***Research Foundation for Science (18)*** (supra) merely distinguished ***Deepak Nitrite*** (supra) and did not overrule it.

35. Reliance placed by KEYSTONE on ***Benzo Chem Industrial (P) Ltd.*** (supra) is misplaced. That decision turned on the NGT's adoption of conjectural revenue figures, absence of notice, and lack of nexus between the amount imposed and environmental harm. It does not lay

down any proposition that the NGT lacks jurisdiction to award compensation in the absence of subordinate legislation or a codified formula, or even interdicted the employment of turnover or project cost as a yardstick for environmental compensation. Relevant paragraphs from the said decision read as hereinunder:

> **10.** We could have allowed the appeal on this short ground, however, the further part of the order i.e. paragraph 15 makes an interesting reading. The learned NGT held that the appellant is liable to pay environmental damages. However, while computing the said damages, the only methodology that has been adopted by the learned NGT is that as per the information which is available in the public domain the revenue range of the appellant is between 100 Crore to 500 Crore. It is therefore found that the penalty of Rs. 25 Crore would be commensurated (*sic, commensurate)* with the revenue. Firstly, there is a vast difference between 100 Crore and 500 Crore. Secondly, if the learned NGT had relied on the information available in the public domain, then it would not be difficult for it to come out with the exact figure. In any case, the generation of revenue would have no nexus with the amount of penalty to be ascertained for environmental damages. It is further to be noted that the learned NGT found the appellant to be guilty of violations, the least that was expected from the NGT is to give a notice to the appellant before imposing such a heavy penalty.
>
> **11.** With deep anguish we have to say that the methodology adopted by the learned NGT for imposing penalty is totally unknown to the principles of law.
>
> **12.** We are, therefore, inclined to quash and set aside the impugned judgments and orders and allow these appeals. Ordered accordingly.

36. The observations made by this Court speak for themselves. Gauged on the aforesaid anvil, the present case stands on a materially different footing. The impugned determination does not rest on conjectural figures sourced vaguely from the public domain, nor does it proceed without notice or opportunity to the project proponent. Here, the NGT has returned concurrent findings, based on Joint Committee reports and contemporaneous material, that the appellants carried out construction activities without requisite permissions, continued construction despite

a stop-work direction, and deviated from the sanctioned plan. These findings have not been demonstrated to be perverse or unsupported by evidence.

37. We are also not oblivious of the decision in ***C.L. Gupta Export Ltd. v. Adil Ansari***[27] where ***Benzo Chem Industrial (P) Ltd.*** (supra) was followed and the compensation amount was set aside on the anvil of lack of rational nexus with the pollution alleged. Apart from ***Benzo Chem Industrial (P) Ltd.*** (supra), this decision too did not have the occasion to either consider the earlier decisions or to delve deep into the issue as to whether turnover of a polluting unit can at all be taken as a factor for determining environmental compensation.

38. In any event, neither ***Benzo Chem Industrial (P) Ltd.*** (supra) nor ***C.L. Gupta Export Ltd.*** (supra) is to be read as having laid down any law that environment compensation can never be worked out based on the project cost or the turnover of the defaulting unit.

39. Read harmoniously, ***Deepak Nitrite Ltd.*** (supra), ***Benzo Chem Industrial (P) Ltd.*** (supra) and ***C.L. Gupta Export Ltd.*** (supra) underscore a common principle that environmental compensation must be rational, proportionate and reasoned. While turnover cannot be a blunt instrument, at the same time, it cannot be excluded as a relevant factor where the facts so warrant. The present determination falls within the permissible zone delineated by this Court in ***Deepak Nitrite Ltd.*** (supra), ***Goel Ganga Developers*** (supra) and ***Vellore District***

[27] 2025 SCC OnLine SC 1812

Environment Monitoring Committee (supra) and it does not suffer from the infirmities which weighed with the Court in ***Benzo Chem Industrial (P) Ltd.*** (supra) and ***C.L. Gupta Export Ltd.*** (supra).

40. Much emphasis was laid on the methodology formulated by the CPCB[28] for computation of environmental compensation. A close reading of the CPCB guidelines, however, reveals that they are neither of universal application nor intended to operate as a rigid formula across all categories of violations. The guidelines postulate an illustrative computation, expressed as EC = PI × N × R × S × LF, where the variables are designed to capture the pollution potential of an industrial sector (Pollution Index)[29], duration of violation[30], scale of operation[31], locational sensitivity[32] and a deterrent monetary factor[33]. Significantly, the very architecture of the formula is premised on categorisation of industrial units into red, orange and green sectors, with assumed pollution indices and minimum daily compensation thresholds, thereby underscoring its sector-specific orientation. The relevant clauses of the CPCB Guidelines read as follows:

> 1.5.1. To begin with, Environmental Compensation may be levied by CPCB only when CPCB has issued the directions under the Environment (Protection) Act, 1986. In case of a, b and c, Environmental Compensation may be calculated based on the formula "EC = PI x N x R x S x LF", wherein, PI may be taken as 80, 50 and 30 for red, orange and green category of industries, respectively, and R may be taken as 250. S and LF may be taken as prescribed in the preceding paragraphs.

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[28] Report of the CPCB In-house Committee on Methodology for Assessing Environmental Compensation
[29] Variable 'PI'
[30] Variable 'N'
[31] Variable 'S'
[32] Variable 'LF'
[33] Variable 'R'

> 1.5.2. In case of d, e and f, the Environmental Compensation may be levied based on the detailed investigations by Expert Institutions/Organizations.
> 1.5.3. The Hon'ble Supreme Court in its order dated 22.02.2017 in the matter of Paryavaran Suraksha Samiti and another v/s Union of India and others (Writ Petition (Civil) No. 375 of 2012), directed that all running industrial units which require "consent to operate" from concerned State Pollution Control Board, have a primary effluent treatment plant in place. Therefore, no industry requiring ETP, shall be allowed to operate without ETP.
> 1.5.4. EC is not a substitute for taking actions under EP Act, Water Act or Air Act. In fact, units found polluting should be closed/prosecuted as per the Acts and Rules.

41. Clearly, Clause 1.5.1 limits the application of the formula to cases where directions are issued by the CPCB under the Environment Protection Act, 1986[34] and only in respect of specified categories of violations. In contradistinction, clause 1.5.2 expressly contemplates that in other classes of cases, environmental compensation is to be determined only after detailed investigation by expert institutions, with a focus on remediation, restitution and site-specific measures. The guidelines further clarify, in clause 1.5.4, that environmental compensation is not a substitute for statutory action under the Air Act, Water Act or the Environment Act. The cumulative reading of these provisions leaves no manner of doubt that the CPCB framework is facilitative and indicative, not prescriptive or exhaustive. It furnishes a structured reference to inform regulatory and adjudicatory discretion, but does not fetter the NGT's authority to mould compensation in a manner commensurate with the nature of the project, the gravity and duration of non-compliance, and the overarching objective of environmental restitution under the polluter pays principle. This conclusion stands further fortified by the

[34] Environment Act

fact that the NGT itself applied the said methodology to determine while determining environmental compensation, KEYSTONE had to bear.

42. The criticism, as levelled, that the NGT abdicated its adjudicatory functions by mechanically adopting the report of the Joint Committee does not withstand close scrutiny. The record unmistakably reveals that the NGT was alive to the limited role of the expert bodies and consciously undertook an independent assessment of liability and quantum. In the case of KEYSTONE, the NGT expressly distinguished between violations already subsumed under the one-time violation window, towards which remediation and augmentation costs had been secured by way of a bank guarantee of Rs. 1,76,00,000/- and distinct statutory infractions relating to prolonged construction without CTE, continuation of work despite a closure direction, and occupation without CTO. Likewise, in the case of RHYTHM, the NGT did not accept the compensation recommended by the Joint Committee at face value but examined the scale of the project, the admitted deviations, the continuation of construction despite regulatory restraint, and the overall project cost before consciously enhancing the amount. These determinations were preceded by consideration of the objections raised by the project proponents, including the challenge to the applicability of the CPCB methodology. That the NGT ultimately concurred with the Committee's conclusions in part, or departed from them so far as quantum is concerned, does not imply surrender of judicial function; rather, it evidences an exercise of informed discretion, wherein expert findings were gauged, filtered, and integrated into a

reasoned adjudicatory outcome. To characterise such an exercise as abdication would be to conflate reliance on technical assistance with absence of independent application of mind-a proposition that finds no support either in law or on the facts of the present case.

43. Furthermore, it is true that in the matter involving KEYSTONE*,* the NGT had adopted the Joint Committee's quantification of Environmental Compensation, which, in turn, had relied upon the CPCB's methodology, i.e. (EC = PI × N × R × S × LF=50 × 1909 × 250 × 1.5 × 1.25=Rs. 4,47,42,188/-). However, this has to be viewed through the prism of the interpretive guidance furnished by this Court in ***Municipal Corporation of Greater Mumbai v. Ankita Sinha***[35], in the following passages:

> **36.** The laudatory objectives for creation of NGT would implore us to adopt such an interpretive process which will achieve the legislative purpose and will eschew procedural impediment or so to say incapacity. The precedents of this Court, suggest a construction which fulfils the object of the Act. [*Sarah Mathew* v. *Institute of Cardio Vascular Diseases*, (2014) 2 SCC 62, *New India Assurance Co. Ltd.* v. *Nusli Neville Wadia*, (2008) 3 SCC 279]. The choice for this Court would be to lean towards the interpretation that would allow fructification of the legislative intention and is forward looking. The provisions must be read with the intention to accentuate them, especially as they concern protections of rights under Article 21 and also deal with vital environmental policy and its regulatory aspects.
> ****
>
> **47.** We have earlier discussed that NGT is empowered to carry out restitutive exercise for compensating persons adversely affected by environmental events. The larger discourse which informs such functions is related to distributive and corrective justice, as will be elaborated in later paragraphs. Even in the absence of harm inflicted by human agency, in a situation of a natural calamity, the Tribunal will be required to devise a plan for alleviating damage. An inquisitorial function is also available for the Tribunal, within and without adversarial significance. Importantly,

[35] (2022) 13 SCC 401

many of these functions do not require an active "*dispute*", but the formulation of *decisions*.

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72. As earlier seen, Section 20 of the NGT Act which includes the term "*decision"*, in addition to "*order*" and "*award*", also require the Tribunal to apply the "*precautionary principle*" and the statutory mandate being relevant is extracted:

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73. The principle set out above must apply in the widest amplitude to ensure that it is not only resorted to for adjudicatory purposes but also for other "*decisions*" or "*orders*" to governmental authorities or polluters, when they fail to "*to anticipate, prevent and attack the causes of environmental degradation*" [*Vellore Citizens' Welfare Forum* v. *Union of India*, (1996) 5 SCC 647, *S. Jagannath* v. *Union of India*, (1997) 2 SCC 87, *Karnataka Industrial Areas Development Board* v. *C. Kenchappa*, (2006) 6 SCC 371]. Two aspects must therefore be emphasised i.e. that the Tribunal is itself required to carry out preventive and protective measures, as well as hold governmental and private authorities accountable for failing to uphold environmental interests. Thus, a narrow interpretation for NGT's powers should be eschewed to adopt one which allows for full flow of the forum's power within the environmental domain.

44. Seen in this perspective, the NGT's recourse to the CPCB methodology for determination of environmental compensation imposed on KEYSTONE cannot be said to be legally impermissible. NGT, though exercising adjudicatory functions, is not confined to the narrow contours of adversarial dispute resolution. Its statutory mandate extends to restitution, corrective intervention and fact-finding, even in situations where a conventional *lis* may not strictly arise. In such a framework, it would be neither appropriate nor desirable to impose inflexible limitations on the methodological tools available to the NGT. We are, therefore, disinclined to circumscribe discretion of the NGT in adopting structured and scientifically informed mechanisms, including the CPCB

framework, particularly while exercising its *suo motu* and restorative jurisdiction under the Act.

45. *Arguendo*, if the total cost of KEYSTONE'S project in question which admittedly is quantified at Rs. 76,00,00,000/- were taken as the appropriate metric for determining proportionality, the environmental compensation of Rs. 4,47,42,188/- would work out to approximately 5.88% of the project cost. Such quantification cannot be characterised as excessive, particularly when viewed *inter alia* in the light of the dictum in ***Goel Ganga Developers*** (supra), which treated 5% of the project cost as a general guiding principle and not as an inflexible ceiling. Equally, the adoption of the CPCB framework by the NGT, in the facts of the present case, does not stand ousted merely because project cost could also have been taken into account. On the whole, the statutory discretion vested in the NGT to determine environmental compensation on the basis of appropriate methodologies, including expert-driven and guideline-based frameworks, remains intact and has been exercised in a manner that is neither arbitrary nor disproportionate.

SUMMARY

46. We may now encapsulate the foregoing discussion thus:

46.1. With respect to RHYTHM, the NGT recorded clear findings of construction without requisite statutory permissions, continuation of work despite a stop-work direction and deviations from the sanctioned plan, and, finding the compensation recommended by the Joint Committee to be grossly inadequate, consciously adopted the

project cost as the relevant yardstick in line with ***Goel Ganga Developers*** (supra) to enhance the environmental compensation to Rs. 5,00,00,000/-, thereby ensuring a rational nexus between the scale of the project and the objectives of deterrence and environmental restitution. The NGT cannot be held to be divested of its statutory authority to employ project turnover as a relevant yardstick for the determination of environmental compensation.

46.2. This Court has consistently underscored that environmental compensation must rest on a foundation of rationality, proportionality and reasoned assessment. While project turnover or cost cannot be applied mechanically as a blunt instrument, it nevertheless remains a relevant and permissible factor where the factual matrix so warrants. The determination of compensation, when undertaken within this calibrated framework and guided by the parameters delineated in ***Deepak Nitrite Ltd.*** (supra), ***Goel Ganga Developers*** (supra) and ***Vellore District Environment Monitoring Committee*** (supra) does not attract the infirmities noticed in ***Benzo Chem Industrial (P) Ltd.*** (supra) and ***C.L. Gupta Export Ltd.*** (supra), and must, therefore, be sustained as falling within the permissible zone of judicially recognised discretion.

46.3. Insofar as KEYSTONE is concerned, the NGT drew a clear distinction between violations already subsumed under the one-time violation window and separate statutory infractions relating to prolonged construction without CTE, continuation of activities despite closure

directions and occupation without CTO, and, upon independent consideration of the nature, duration and gravity of such violations, accepted the Joint Committee's computation based on the CPCB methodology as an appropriate measure of environmental compensation.

46.4. The CPCB framework, on a conjoint reading of Clauses 1.5.1, 1.5.2 and 1.5.4, makes it abundantly clear that the formula-based methodology is confined to limited categories of violations arising from directions issued under the Environment (Protection) Act, 1986, and that in other classes of cases, the determination of environmental compensation must be preceded by a detailed, site-specific and expert-driven assessment with emphasis on remediation and restitution. The guidelines, at the same time, expressly recognise that such compensation is not a substitute for independent statutory action under the Air Act, Water Act or the Environment Act. The CPCB framework, therefore, operates as a facilitative and indicative tool, and not as a rigid or exhaustive code.

46.5. In respect of both the appellants, the NGT proceeded on the basis of contemporaneous material and expert inputs, afforded due opportunity of hearing, applied its independent mind to the issues of liability and quantum, and exercised its powers under Sections 15 and 20 of the NGT Act in a manner that is reasoned, proportionate and consistent with the polluter pays principle.

CONCLUSION

47. We, thus, find no ground to interfere with the impugned computation of environmental compensation in both the appeals under consideration. The appeals are without merit and, accordingly, stand dismissed.

48. Parties shall, however, bear their own costs.

49. Time to pay the amounts on account of compensation is extended by three months from date.

.....J.
(DIPANKAR DATTA)

.....J.
(VIJAY BISHNOI)

NEW DELHI;
JANUARY 30, 2026.