Union Of India vs Larsen And Tubro Limited (L And T) on 27 February, 2026

Author: Sanjay Karol

Bench: Sanjay Karol

2026 INSC 203

IN THE SUPREME COURT OF INDIA
(CIVIL APPELLATE JURISDICTION)

CIVIL APPEAL NO. _____ OF 2026
(@ SPECIAL LEAVE PETITION (CIVIL) NO. 14989 OF 2023)

UNION OF INDIA & ORS.

VERSUS

LARSEN & TUBRO LIMITED (L&T)

JUDGMENT

VIPUL M. PANCHOLI, J.

1. Leave granted.

2. This is an appeal challenging the final judgment and order dated 25.05.2023 passed by the High Court of Judicature at Allahabad in Appeal No. 433 of 2023 under Section 37 of the Arbitration and Conciliation Act, 1996 (hereinafter referred to as "the Act") titled as "Union of India and 2 others v. Larsen & Reason: 3. Vide the impugned judgment, the High Court dismissed the appeal filed by the appellants herein and upheld the Order

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Special Leave Petition (Civil) No. 14989 of 2023) Page 1 dated 15.09.2022 passed by the Commercial Court, Jhansi, and thereby upheld the Arbitral Award dated 25.12.2018 passed by the learned Arbitral Tribunal.

FACTUAL MATRIX

4. The brief facts of the case are that the underlying dispute originates from the Agreement dated 27.01.2011, bearing No. CME/NCR/JHSW/MOD/2010 (Turnkey), executed between the appellants (Union of India & North Central Railway Administration) and the respondent (Larsen & Tubro Limited [L&T]).

5. The contract stipulated the execution of work related to the modernization of Jhansi Workshop of North Central Railways, valued at a negotiated rate of Rs. 93,08,07,696/-. The original date for the completion of the work was 18.07.2012 (a period of 18 months). However, the same was extended by the appellants 10 times until 30.11.2015. This resulted in a total delay of 40 months beyond the original deadline.

6. During this course, disputes concerning the execution of the work and outstanding payments arose between the parties. The General Conditions of Contract (hereinafter referred to as "the GCC") provided for the arbitration agreement, being Clause 64.

Special Leave Petition (Civil) No. 14989 of 2023) Page 2 The respondent submitted an application on 04.09.2017 for the appointment of an Arbitral Tribunal. As per Clause 64(3) of the GCC, the three-member Arbitral Tribunal was formally constituted. The learned Arbitral Tribunal (hereinafter referred to as "the AT") entered into reference on 10.01.2018, with L&T as claimant (respondent herein) and North Central Railway as respondent (appellants herein).

7. L&T submitted a statement of claim, subsequently revised, raising claims, inter alia, for Financing Charges towards Inordinate Delay in release of payments against running account bills (Claim No. 1), Cost incurred due to Variations in Foreign Exchange Currency Component beyond original contract period (Claim No. 2), Non-payment of Price Variation Component (PVC) (Claim No. 3), Indirect Costs incurred during extended stay in the project (Claim No. 4), Refund of the amount recovered as token liquidated damages (Claim No. 5), Payment due against the final bill / variation for the additional works as per the contract (Claim No. 6), Interest on the claim amount (Claim No. 7), and Costs of Arbitration (Claim No. 8). North Central Railway made a counter claim for Losses to Railway due to late commissioning of CNC Portal Wheel Lathe, MOD.

Special Leave Petition (Civil) No. 14989 of 2023) Page 3

8. After perusing the material available on record, the AT passed the Arbitral Award on 25.12.2018. The operative part of the Arbitral Award is reproduced as under:-

> "5.0 Summary of the Claims / Counter-claim and award declared:
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> Claims:
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> Sr. Particulars Claim Amount Award sum in Rs.
>
> in Rs.

Claim No.1 Financing charges towards 2,26,25,891 1,77,78,727/-

inordinate delay Claim No.2 Claim for Variations in 2,21,00,586 Nil Foreign Exchange Currency Claim No.3 Claim for non payment of 98,44.886/- 1,70,18,577/-

	PVC & INTEREST		
Claim No.4	Claim for indirect costs 5,70,04,383 during extended stay in the project		Nil
Claim No.5	Refund of the amount 2,00,000 recovered as token liquidated damages		Nil
Claim No.6	Payment due against the 1,67,51,576 final bill & interest		2,28,70,261/-
Claim No.7	Interest on the claim amount 10,27,41,682 @ 18%		NIL
Claim No.8	Costs of arbitration	29,88,947/-	7,90,032/-
		Total Award	5,84,57,597/-

Special Leave Petition (Civil) No. 14989 of 2023) Page 4 Counter Claim:

Sr.	Particulars	Claim Amount in Rs.	Award Rs.	sum
Counter Claim	Losses to railway due to late commissioning of CNC Portal Wheel Lathe, MOD item No.6	8,95,25,520/-	31,00,000/-	

Net Award sum payable to the Claimant is Rs.5,53,57,597/-

6.0 Costs of Arbitration:

The costs of arbitration worked out are as under:

In terms of Section 31A of the Act, Costs mean reasonable costs relating to-

i) The fees & expenses of arbitrators etc.

ii) Legal fees & expenses

iii) Any other expenses incurred in connection with the arbitral proceedings and the arbitral award.

i) Fees, incidental & travel expenses of Arbitrators.:

Entire sum towards fees & incidental expenses of three Members of the Tribunal were deposited by the Claimant in tranches under the provision of Section 38(2) of the Act as the Respondent side declined to make deposit in advance of the sums on equitable share basis despite repeated directions of the Tribunal in its several arbitral notices & Order Sheets. Tribunal therefore constrained to invoke the provision in Section 38 of the Act to direct the Claimant side to deposit Respondent's share too.

Fees of 3 Arbitrators: Rs.2,25,000(@ Rs 75,000 of each Arbitrator) Incidental expenses of Arbitrators (Sectt. Charges, TA & local transportation): Rs. 49,500 (@16,500) Travel expenses of Shri R.K. Bariar, Co-Arbitrator from Mumbai (sittings held at Delhi): Rs 15,532 (incurred by the Claimant fully)

a) Sub Total of fees, incidental & travel expenses:

Rs.2,90,032 (incurred by the Claimant fully)

Special Leave Petition (Civil) No. 14989 of 2023) Page 5

ii) Legal Fees & charges:

Legal expenses of the Claimant (considered on lumpsum basis): Rs. 5,00,000 (as no corroborative documents furnished with the statement) Legal expenses of the Respondent: Nil (No statement filed by Respondent with AT)

b) Sub Total of Legal expenses: Rs. 5,00,000

iii) Other expenses in connection with arbitral proceedings held at Delhi:

c) Arbitration Venue bookings (4 sittings): Rs.81,195/-

Thus, Total costs of arbitration admitted by the Tribunal (a+b+c): Rs 7,90,032/-

7.0 This award has been published on a non-judicial stamp paper of Rs. 500/- provided by the claimant. Deficiency, if any, shall be borne by the party claiming under this award. 8.0 The above award sum of Rs.5,53,57,597/- (Five crore fifty-three lakh fifty seven thousand five hundred ninety-seven rupees only) shall be paid by the Respondent to the Claimant within 60 days failing which, the awarded sum shall carry post-lite interest @12% per annum with effect from date of

award till actual payment.

This award accordingly is made & signed on this day of 25th Dec. 2018 at New Delhi."

9. Thus, the AT awarded a sum of Rs. 5,53,57,597/-, to be paid by the appellants (North Central Railway) to the respondent (L&T) within 60 days. In default, the awarded sum shall carry post-award interest at 12% per annum with effect from date of award.

10. Being aggrieved by the Arbitral Award, the appellants filed an application under Section 34 of the Act before the learned Commercial Court, Jhansi, primarily arguing that the award of

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Special Leave Petition (Civil) No. 14989 of 2023) Page 6 interest / compensation violated the contractual prohibitions contained in Clause 16(3) and Clause 64(5) of the GCC and also challenged the award of legal fees as lump sum under Claim No. 8 of the Arbitral Award.

11. The learned Commercial Court dismissed the Section 34 application vide the order dated 15.09.2022, affirming the Arbitral Award. The learned Commercial Court further held that the scope of interference under Section 34 of the Act is limited and since it was not a case wherein the Arbitral Award could have been set aside on the basis of provision of Section 34 of the Act, the application filed by the appellants was rejected.

12. Aggrieved by the Commercial Court Order, the appellants filed an Arbitration Appeal under Section 37 of the Act before the High Court of Judicature at Allahabad.

13. Vide the impugned judgment dated 25.05.2023, the High Court dismissed the appeal filed by the appellants and upheld the Arbitral Award passed by the AT, holding that Clause 16(3) of the GCC related only to earnest money and security deposits and Clause 64(5) of the GCC merely barred pendente lite interest, which the AT had correctly interpreted.

14. Aggrieved by the impugned judgment, the appellants have filed the present appeal.

Special Leave Petition (Civil) No. 14989 of 2023) Page 7 SUBMISSIONS ON BEHALF OF THE APPELLANTS

15. Ms. Aishwarya Bhati, learned Additional Solicitor General, appearing on behalf of the appellants, contended that the contractual scheme under Clauses 16(3) and 64(5) of the GCC constitutes an absolute prohibition on the award of interest on all contract amounts.

16. It is submitted that as per the agreement between the parties, Clause 16(3) of the GCC provides that no interest shall be payable upon the earnest money or the security deposit or "the amounts payable to the contractor under the contract". Thus, it is submitted that the aforesaid clause specifically bars the payment of interest not only on the earnest money or security deposit but also on any amounts payable to the contractor under the contract. It is submitted that the claims

adjudicated by the AT arise solely from delayed payments under the contract, such as, final bill, PVC amounts, and withheld dues, and therefore, falls squarely within the contractual prohibition.

17. It is also submitted that the respondent's submission that the interest may be granted as "compensation" is a direct attempt to violate the contractual bar, and the said position has been rejected by this Court in the case of Sree Kamatchi Amman

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Special Leave Petition (Civil) No. 14989 of 2023) Page 8 Constructions v. Railway Administration, (2010) 8 SCC

767.

18. It is further submitted that since the parties are governed by the contract and the AT and the arbitration proceedings are the creatures of the contract, they cannot go beyond what has been contemplated in the contract between the parties. Reliance is placed on the decision rendered by a three-judge Bench of this Court in Union of India vs. Bright Power Projects (India) (P) Limited, (2015) 9 SCC 695, wherein this Court reiterated that Section 31(7)(a) of the Act subordinates the arbitrator's power to the terms of the contract and held that once the parties have agreed to bar interest, the arbitrator has no jurisdiction to award it under any name.

19. Further reliance is placed on the decision of this Court in Union of India vs. Manraj Enterprises, (2022) 2 SCC 331, wherein this Court observed and held that in view of the specific contract between the parties and the bar on awarding the interest, the arbitrator lacks jurisdiction to award interest of any kind including pre-reference, pendente lite, or future interest.

20. It is submitted that the reliance of the respondent on Section 73 of the Indian Contract Act, 1872, is misplaced. Section 73 deals with compensation for loss or damage caused by breach

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Special Leave Petition (Civil) No. 14989 of 2023) Page 9 of contract and expressly provides that "unless the contract provides otherwise". However, in the present case, the contract expressly excluded the interest. It is therefore urged that Section 73 cannot override the agreement between the parties.

21. It is further submitted that the reliance of the respondent on the decision of this Court in the case of RP Garg vs. Chief General Manager, Telecom Department & Ors., 2024 SCC OnLine SC 2928, in support of post-award interest, is misconceived, as this decision is applicable only where the contract does not prohibit interest on the category of sums awarded. It is therefore urged that in the present case, the contractual bar applies to all amounts payable under the contract. It is also pointed out that Section 31(7)(b) of the Act is expressly subject to Section 31(7)(a) of the Act. It is therefore urged that where the parties have contractually agreed to exclude interest altogether, post-award interest cannot be awarded.

22. Lastly, it is submitted that the award of interest under Claim Nos. 1, 3 and 6 of the Arbitral Award by the AT is contrary to the contract, contrary to the referred judicial pronouncements of this

Court, and thus, the Arbitral Award as well the impugned judgment is liable to be set aside.

Special Leave Petition (Civil) No. 14989 of 2023) Page 10 SUBMISSIONS ON BEHALF OF THE RESPONDENT

23. Ms. Meenakshi Arora, learned senior counsel, appearing on behalf of the respondent, at the outset, submitted that the present case arises out of concurrent findings given by the Commercial Court as well as the High Court while considering the proceedings filed by the appellants under Section 34 and Section 37 of the Act, respectively.

24. Learned counsel referred to Clause 16(3) as well as Clause 64(5) of the GCC. It is contended that Clause 16(3) of the GCC would be governed by the principle of ejusdem generis, meaning thereby that, when a general word or phrase follows a list of specific persons or things, the general word or phrase will be interpreted to include only persons or things of the same type as those listed. Reliance is placed on the decision rendered by this Court in the case of Raveechee and Company vs. Union of India, (2018) 7 SCC 664, wherein this Court was dealing with a Clause exactly similar to present Clause 16(3) and interpreted the clause to mean and include only the amounts voluntarily deposited with the other contracting party in order to be refunded or forfeited depending on the performance of the contract. It is therefore urged that it is not in dispute that the

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Special Leave Petition (Civil) No. 14989 of 2023) Page 11 present matter does not involve any sums towards the release of the earnest money or the security deposit and hence, Clause 16(3) of the GCC has no relevance to the facts of the present case.

25. With respect to Clause 64(5) of the GCC, it is submitted that this clause specifically restricts payment of interest on the money payable under an award till the date of award. In this regard, it is further submitted that the issue of arbitration has been dealt under the heading “Settlement of Disputes” and an award would mean adjudication or determination of a matter in dispute by a person competent to adjudicate or determine the dispute, thus, in order to be adjudicated, the existence of a dispute is a must, and hence, only such sums which were in dispute can be governed by this Clause and sums which are already admitted will not be hit by this Clause. It is therefore urged that in the present matter, Claim Nos. 3 and 6 are admitted sums, and thus, will not be hit by Clause 64(5) of the GCC, and therefore, the respondent will be entitled for full interest on these admitted sums under Claim Nos. 3 and 6 from the said sums becoming due and till the date of their payment to the respondent.

Special Leave Petition (Civil) No. 14989 of 2023) Page 12

26. Further, with respect to the post-award interest, reliance is placed on the decision rendered by this Court in RP Garg (supra), wherein this Court has categorically held that so far as the entitlement of the post-award interest is concerned, Section 31(7)(b) of the Act provides that the sum directed to be paid by the arbitral tribunal shall carry interest.

27. Lastly, it is submitted that the judicial pronouncements relied upon by learned ASG for the appellants would not be applicable to the facts of the present case. It is therefore urged that the AT has specifically observed that "it would be travesty of justice if this interest as compensation is not paid because principal unpaid sum is an admitted amount by the Respondent but simply not paid without any reason".

28. Therefore, it is submitted that the present appeal filed by the appellants is liable to be dismissed as it is devoid of merit. ANALYSIS AND FINDINGS

29. We have heard learned counsel for the parties and perused the material placed on record. The following issues are raised for our consideration:-

A. Whether the AT is justified in awarding pre-

award/pendente lite interest, by way of compensation, while

Special Leave Petition (Civil) No. 14989 of 2023) Page 13 passing the award in favour of the respondent-claimant, and more particularly in view of Clause 16(3) and Clause 64(5) of GCC.

B. Whether the AT is justified in awarding post award interest in favour of the respondent-claimant.

C. Whether the Courts below committed any error while dealing with Issue (A) and Issue (B) referred hereinabove while exercising the powers under Section 34 and Section 37 of the Act.

30. For considering the aforesaid issues raised in the present matter, at the outset, we would like to refer to the relevant provisions of GCC as well as the Act of 1996.

31. Clause 16(3) of the GCC reads as under:

"no interest will be payable upon the Earnest Money and Security Deposit or amounts payable to the Contractor under the Contract, but Government Securities deposited in terms of Sub-Clause (1) of this clause will be payable with interest accrued thereon".

32. Clause 64(5) of the GCC provides as under:

"where the arbitral award is for the payment of money, no interest shall be payable on whole or any part of the money for any period till the date on which the award is m a d e . "

Special Leave Petition (Civil) No. 14989 of 2023) Page 14

33. Section 28(3) of the Act mandates that the arbitral tribunal shall decide disputes in accordance with the terms of the contract, which reads as under:-

> "28. Rules applicable to substance of dispute.— ..... (3) While deciding and making an award, the arbitral tribunal shall, in all cases, take into account the terms of the contract and trade usages applicable to the transaction."

34. Section 31(7)(a) and 31(7)(b) further clarifies that the power of the arbitral tribunal to award interest, which reads as under:-

> "31. Form and contents of arbitral award.— .....
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> (7) (a) Unless otherwise agreed by the parties, where and in so far as an arbitral award is for the payment of money, the arbitral tribunal may include in the sum for which the award is made interest, at such rate as it deems reasonable, on the whole or any part of the money, for the whole or any part of the period between the date on which the cause of action arose and the date on which the award is made."
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> (b) A sum directed to be paid by an arbitral award shall, unless the award otherwise directs, carry interest at the rate of two per cent. higher than the current rate of interest prevalent on the date of award, from the date of award to the date of payment.

Explanation.—The expression "current rate of interest" shall have the same meaning as assigned to it under clause (b) of section 2 of the Interest Act, 1978 (14 of 1978)."

35. On perusal of Section 28(3) and Section 31(7)(a) of the Act, it is clear that the statutory scheme itself subordinates the

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 discretion of the arbitrator to the contractual provisions governing interest.

36. In the present case, Clause 16(3) of the GCC, as referred hereinabove, expressly stipulates that no interest will be payable upon earnest money and security deposits or amounts payable to the contractor under the contract.

37. Learned counsel for the respondent has sought to restrict the scope of Clause 16(3) of the GCC by invoking the principle of ejusdem generis contending that the expression "amounts payable to the contractor under the contract" must be confined to deposits akin to earnest money and security deposits.

38. This Court in the decision rendered in the case of Manraj Enterprises (supra) has considered a similar submission canvassed on behalf of the party concerned and thereafter observed and held in para 12.1 as under:

> "12.1. It is required to be noted that Clause 16(1) is with respect to earnest money/security deposit. However, Clause 16(2) is specifically with respect to interest payable upon the earnest money or the security deposit or amounts payable to the contractor under the contract. The words used in Clause 16(2) is "or". Therefore, the expression "amounts payable to the contractor under the contract" cannot be read in conjunction with "earnest money deposit" or "security deposit" by applying the principle of ejusdem generis. The expression "amounts payable to the contractor under the contract" has to be read independently and disjunctively to earnest money deposit and security deposit as the word used is "or" and not "and" between "earnest money deposit", "security deposit" and "amounts payable to the contractor under the contract". Therefore, the
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> Special Leave Petition (Civil) No. 14989 of 2023) Page 16 principle of ejusdem generis is not applicable in the present case."

39. Thus, it can be said that the rule of ejusdem generis is a tool of interpretation and is applicable only where the general words follow a specific class forming a genus. The expression "amounts payable to the contractor under the contract" used in Clause 16(3) is independent, distinct and of wide amplitude, and cannot be read down to defeat its plain meaning. Thus, the submission canvassed by the learned counsel for the respondent cannot be accepted.

40. At this stage, we would also like to refer to the decision rendered by a three-judge bench of this Court in Bright Power Projects (India) (P) Ltd. (supra), wherein in para 10, 11 and 13, it was held as under:

> "10. Thus, it had been specifically understood between the parties that no interest was to be paid on the earnest money, security deposit and the amount payable to the contractor under the contract. So far as payment of interest on government securities, which had been deposited by the respondent contractor with the appellant is concerned, it was specifically stated that the said amount was to be returned to the contractor along with interest accrued thereon, but so far as payment of interest on the amount payable to the contractor under the contract was concerned, there was a specific term that no interest was to be paid thereon.
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> 11. When parties to the contract had agreed to the fact that interest would not be awarded on the amount payable to the contractor under the contract, in our opinion, they were bound by their understanding. Having once agreed that the contractor would not claim any interest on the amount to be paid under the
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> Special Leave Petition (Civil) No. 14989 of 2023) Page 17 contract, he could not have claimed interest either before a civil court or before an Arbitral Tribunal.
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> .....

> 13. Section 31(7) of the Act, by using the words "unless otherwise agreed by the parties", categorically specifies that the arbitrator is bound by the terms of the contract so far as award of interest from the date of cause of action to date of the award is concerned. Therefore, where the parties had agreed that no interest shall be payable, the Arbitral Tribunal cannot award interest."

41. In the case of Sree Kamatchi Amman Constructions (supra), this Court has held in para 19 as under:

> "19. Section 37(1)[Sic Section 31(7)] of the new Act by using the words "unless otherwise agreed by the parties" categorically clarifies that the arbitrator is bound by the terms of the contract insofar as the award of interest from the date of cause of action to the date of award. Therefore, where the parties had agreed that no interest shall be payable, the Arbitral Tribunal cannot award interest between the date when the cause of action arose to the date of award."

42. At this stage, we may also refer to the decision upon which reliance has been placed by learned counsel for the respondent, i.e., in the case of Raveechee and Company (supra), this Court observed, in para 16 and 17, as under:

> "16. Further, this Court considered an identical clause in the contract in Ambica Construction v. Union of India [Ambica Construction v. Union of India, (2017) 14 SCC 323 : (2018) 1 SCC (Civ) 257] , wherein it observed that the clause of GCC did not bar the arbitrator from awarding interest pendente lite and affirmed the award passed by the arbitrator. The three-Judge Bench of this Court held that the contention raised by the Union of India based on the clause of GCC that the arbitrator could not award interest pendente lite was not a valid contention and the arbitrator was completely justified in granting interest pendente lite. Relying on the three-Judge Bench judgment in Union of India v. Ambica Construction [Union of India v. Ambica Construction, (2016) 6 SCC 36 : (2016) 3 SCC (Civ) 36] and in Irrigation Deptt., State of Orissa [Irrigation Deptt., State of
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> Special Leave Petition (Civil) No. 14989 of 2023) Page 18 Orissa v. G.C. Roy, (1992) 1 SCC 508] , this Court held that the bar to award interest on the amounts payable under the contract would not be sufficient to deny the payment of interest pendente lite.

17. Thus, when a dispute is referred to for adjudication to an arbitrator, a term of such a nature as contained in Clause 16(3) of GCC, that is binding on the parties cannot be extended to bind an arbitrator. The arbitrator has the power to award interest pendente lite where justified. We, therefore, set aside the judgment of the High Court and restore the award passed by the Arbitral Tribunal in respect of Claim 12."

43. Now, at this stage, it is pertinent to observe that this Court, thereafter, in the case of Manraj Enterprises (supra) had an occasion to consider similar issues involved in the present matter and had considered all the aforementioned decisions, including the decisions rendered in the cases of Bright Power Projects (India) (P) Ltd. (supra), Raveechee and Company (supra) and Ambica Construction vs. Union of India, (2017) 14 SCC 323 (a three-judge bench judgment of this Court). After considering the aforesaid decisions as well as several other decisions referred on the issue, this Court has observed in para 8 and 11 as under:

> "8. After considering various decisions on award of interest pendente lite and the future interest by the arbitrator and after discussing the decisions of this Court in Ambica Construction v. Union of India [Ambica Construction v. Union of India, (2017) 14 SCC 323 : (2018) 1 SCC (Civ) 257] and Raveechee & Co. [Raveechee & Co. v. Union of India, (2018) 7 SCC 664 : (2018) 3 SCC (Civ) 711] and other decisions on the point, this Court has observed in paras 9 to 18 as under : (Garg Builders [Garg Builders v. BHEL, (2022) 11 SCC 697 : 2021 SCC OnLine SC 855] , SCC paras 9-19)
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> Special Leave Petition (Civil) No. 14989 of 2023) Page 19 "9. On the other hand, Mr Pallav Kumar, learned counsel for the respondent, submitted that Section 31(7)(a) of the 1996 Act gives paramount importance to the contract entered into between the parties and categorically restricts the power of an arbitrator to award pre-reference and pendente lite interest when the parties themselves have agreed to the contrary. He argued that if the contract itself contains a specific clause which expressly bars the payment of interest, then it is not open for the arbitrator to grant pendente lite interest. It was further argued that Ambica Construction [Ambica Construction v. Union of India, (2017) 14 SCC 323 : (2018) 1 SCC (Civ) 257] is not applicable to the instant case because it was decided under the Arbitration Act, 1940 whereas the instant case falls under the 1996 Act. It was further argued that Section 3 of the Interest Act confers power on the court to allow interest in the proceedings for recovery of any debt or damages or in proceedings in which a claim for interest in respect of any debt or damages already paid. However, Section 3(3) of the Interest Act carves out an exception and recognises the right of the parties to contract out of the payment of interest arising out of any debt or damages and sanctifies contracts which bars the payment of interest arising out of debt or damages. Therefore, Clause 17 of the contract is not violative of any the provisions of the Contract Act, 1872. In light of the arguments advanced, the learned counsel prays for dismissal of the appeal.
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> 10. We have carefully considered the submissions of the learned counsel for both the parties made at the Bar. The law relating to award of pendente lite interest by arbitrator under the 1996 Act is no longer res integra. The provisions of the 1996 Act give paramount importance to the contract entered into between the parties and categorically restricts the power of an arbitrator to award pre-reference and pendente lite interest when the parties themselves have agreed to the contrary.

11. Section 31(7)(a) of the 1996 Act which deals with the payment of interest is as under:

'31. (7)(a) Unless otherwise agreed by the parties, where and insofar as an arbitral award is for the payment of money, the Arbitral Tribunal may include in the sum for which the award is made interest, at such rate as it deems reasonable, on the whole or any part of the money, for the whole or any part of the period between the date on which the cause of action arose and the date on which the award is made.'

Special Leave Petition (Civil) No. 14989 of 2023) Page 20

12. It is clear from the above provision that if the contract prohibits pre-reference and pendente lite interest, the arbitrator cannot award interest for the said period. In the present case, clause barring interest is very clear and categorical. It uses the expression "any moneys due to the contractor" by the employer which includes the amount awarded by the arbitrator.

13. In Sayeed Ahmed & Co. v. State of U.P. [Sayeed Ahmed & Co. v. State of U.P., (2009) 12 SCC 26 : (2009) 4 SCC (Civ) 629] , this Court has held that a provision has been made under Section 31(7)(a) of the 1996 Act in relation to the power of the arbitrator to award interest. As per this section, if the contract bars payment of interest, the arbitrator cannot award interest from the date of cause of action till the date of award.

14. In Sree Kamatchi Amman Constructions v. Railways [Sree Kamatchi Amman Constructions v. Railways, (2010) 8 SCC 767 : (2010) 3 SCC (Civ) 575] , it was held by this Court that where the parties had agreed that the interest shall not be payable, the Arbitral Tribunal cannot award interest between the date on which the cause of action arose to the date of the award.

15. BHEL v. Globe Hi-Fabs Ltd. [BHEL v. Globe Hi-Fabs Ltd., (2015) 5 SCC 718 : (2015) 3 SCC (Civ) 287] , is an identical case where this Court has held as under : (SCC p.

723, para 16) '16. In the present case we noticed that the clause barring interest is very widely worded. It uses the words "any amount due to the contractor by the employer". In our opinion, these words cannot be read as ejusdem generis along with the earlier words "earnest money" or "security deposit".'

16. In Chittaranjan Maity v. Union of India [Chittaranjan Maity v. Union of India, (2017) 9 SCC 611 : (2017) 4 SCC (Civ) 693] , it was categorically held that if a contract prohibits award of interest for pre-award period, the arbitrator cannot award interest for the said period.

17. Therefore, if the contract contains a specific clause which expressly bars payment of interest, then it is not open for the arbitrator to grant pendente lite interest. The judgment on which reliance was placed by the learned counsel for the appellant in Ambica Construction [Ambica Construction v. Union of India, (2017) 14 SCC 323 : (2018) 1 SCC (Civ) 257] has no application to the instant case because Ambica Construction [Ambica

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Special Leave Petition (Civil) No. 14989 of 2023) Page 21 Construction v. Union of India, (2017) 14 SCC 323 : (2018) 1 SCC (Civ) 257] was decided under the Arbitration Act, 1940 whereas the instant case falls under the 1996 Act. This has been clarified in Chittaranjan Maity [Chittaranjan Maity v. Union of India, (2017) 9 SCC 611 : (2017) 4 SCC (Civ) 693] as under : (SCC p. 616, para 16) '16. Relying on a decision of this Court in Ambica Construction v. Union of India [Ambica Construction v. Union of India, (2017) 14 SCC 323 : (2018) 1 SCC (Civ) 257] , the learned Senior Counsel for the appellant submits that mere bar to award interest on the amounts payable under the contract would not be sufficient to deny payment on pendente lite interest. Therefore, the arbitrator was justified in awarding the pendente lite interest. However, it is not clear from Ambica Construction [Ambica Construction v. Union of India, (2017) 14 SCC 323 : (2018) 1 SCC (Civ) 257] as to whether it was decided under the Arbitration Act, 1940 (for short "the 1940 Act") or under the 1996 Act. It has relied on a judgment of Constitution Bench in Irrigation Deptt., State of Orissa v. G.C. Roy [Irrigation Deptt., State of Orissa v. G.C. Roy, (1992) 1 SCC 508] . This judgment was with reference to the 1940 Act. In the 1940 Act, there was no provision which prohibited the arbitrator from awarding interest for the pre-reference, pendente lite or post-award period, whereas the 1996 Act contains a specific provision which says that if the agreement prohibits award of interest for the pre-award period, the arbitrator cannot award interest for the said period. Therefore, the decision in Ambica Construction [Ambica Construction v. Union of India, (2017) 14 SCC 323 : (2018) 1 SCC (Civ) 257] cannot be made applicable to the instant case.'

18. The decision in Raveechee & Co. [Raveechee & Co. v. Union of India, (2018) 7 SCC 664 : (2018) 3 SCC (Civ) 711] relied on by the learned counsel for the appellant is again under the Arbitration Act, 1940 which has no application to the facts of the present case.

19. Having regard to the above, we are of the view that the High Court [Garg Builders v. BHEL, 2017 SCC OnLine Del 12871] was justified in rejecting the claim of the appellant seeking pendente lite interest on the award amount." .....

11. In the said decision in Bright Power Projects [Union of India v. Bright Power Projects (India) (P) Ltd., (2015) 9 SCC 695 :

> (2015) 4 SCC (Civ) 702] , this Court also considered Section 31(7)(a) of the 1996 Act. It is specifically observed and held that Section 31(7) of the 1996 Act, by using the words "unless otherwise agreed by the parties" categorically specifies that the

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> Special Leave Petition (Civil) No. 14989 of 2023) Page 22 arbitrator is bound by the terms of the contract insofar as award of interest from the date of cause of action to date of the award is concerned. It is further observed and held that where the parties

had agreed that no interest shall be payable, the Arbitral Tribunal cannot award interest. Thus, the aforesaid decision of a three-Judge Bench of this Court is the answer to the submission made on behalf of the respondent that despite the bar under Clause 16(2) which is applicable to the parties, the Arbitral Tribunal is not bound by the same. Therefore, the contention raised on behalf of the respondent that dehors the bar under Clause 16(2), the Arbitral Tribunal independently and on equitable ground and/or to do justice can award interest pendente lite or future interest has no substance and cannot be accepted. Once the contractor agrees that he shall not be entitled to interest on the amounts payable under the contract, including the interest upon the earnest money and the security deposit as mentioned in Clause 16(2) of the agreement/contract between the parties herein, the arbitrator in the arbitration proceedings being the creature of the contract has no power to award interest, contrary to the terms of the agreement/contract between the parties and contrary to Clause 16(2) of the agreement/contract in question in this case."

44. Thus, from the aforesaid decisions rendered by this Court, it can be said that the decisions in Ambica Construction (supra) and Raveechee and Company (supra) were rendered by this Court while deciding under the Arbitration Act of 1940, whereas the instant case falls under the Arbitration Act of 1996.

45. The provisions of the Act of 1996, including provisions contained in Section 31(7)(a) give paramount importance to the contract entered into between the parties and categorically restrict the power of an arbitrator to award pre-award/pendente lite interest when the parties have themselves agreed to the contrary. Thus, the AT cannot award pre-award/pendente lite

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Special Leave Petition (Civil) No. 14989 of 2023) Page 23 interest, even in the form of compensation, in view of specific Clause 16(3) of GCC read with Clause 64(5) of GCC.

46. At this stage, it is also relevant to observe that the AT itself acknowledged this prohibition by rejecting Claim No. 7 seeking pendente lite interest. The relevant paragraph of the Arbitral Award reads as under:-

"The Interest so claimed is therefore not admissible as per Section 31(7)(a) of the Act read with Clause 64(5) of the GCC & Clause 7.35 of SCC of the contract agreement signed between the two parties. Tribunal did not therefore consider to award any interest on the award sum as claimed by the Claimant. Therefore, Arbitral Tribunal declare Nil Award against this claim."

47. With regard to the post-award interest, Section 31(7)(b) of the Act provides that unless the award otherwise directs, the sum awarded shall carry interest from the date of the award till payment. The legislative intent underlying this provision is twofold: first, to compensate the successful party for delayed realization of the award, and second, to ensure prompt compliance with the award by the judgment-debtor.

48. Recently, this Court in the case of R.P. Garg (supra), has observed and held in para 9, 11 and 12 as under:

"9. We are of the opinion that the judgment of High Court is clearly erroneous. Firstly, the interest granted by the First Appellate Court only related to post award period, and therefore, for this period, the agreement between the parties has no

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Special Leave Petition (Civil) No. 14989 of 2023) Page 24 bearing. Section 31(7)(b) deals with grant of interest for post award period i.e., from the date of the award till its realization. The statutory scheme relating to grant of interest provided in Section 31(7) creates a distinction between interest payable before and after the award. So far as the interest before the passing of the award is concerned, it is regulated by Section 31(7)(a) of the Act which provides that the grant of interest shall be subject to the agreement between the parties. This is evident from the specific expression at the commencement of the sub- section which says "unless otherwise agreed by the parties".

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11. So far as the entitlement of the post-award interest is concerned, sub-Section (b) of Section 31(7) provides that the sum directed to be paid by the Arbitral Tribunal shall carry interest.

The rate of interest can be provided by the Arbitrator and in default the statutory prescription will apply. Clause (b) of Section 31(7) is therefore in contrast with clause (a) and is not subject to party autonomy. In other words, clause (b) does not give the parties the right to "contract out" interest for the post-award period. The expression 'unless the award otherwise directs' in Section 31(7)(b) relates to rate of interest and not entitlement of interest. The only distinction made by Section 31(7)(b) is that the rate of interest granted under the Award is to be given precedence over the statutorily prescribed rate. The assumption of the High Court that payment of the interest for the post award period is subject to the contract is a clear error.

12. The clear position of law that granting post-award interest is not subject to the contract between the parties was recently affirmed in the decision of this Court in Morgan Securities & Credits (P) Ltd. v. Videocon Industries Ltd.,6 wherein the court observed as follows:

"24. The issue before us is whether the phrase "unless the award otherwise directs" in Section 31(7)(b) of the Act only provides the arbitrator the discretion to determine the rate of interest or both the rate of interest and the "sum" it must be paid against. At this juncture, it is crucial to note that both clauses (a) and (b) are qualified. While, clause (a) is qualified by the arbitration agreement, clause (b) is qualified by the arbitration award. However, the placement of the phrases is crucial to their interpretation. The words, "unless otherwise agreed by the parties" occur at the beginning of clause (a) qualifying the entire provision. However, in clause

(b), the words, "unless the award otherwise directs" occur after the words "a sum directed to be paid by an arbitral award shall" and before the words "carry interest at the rate of eighteen per cent". Thereby, those words only qualify the rate of post-award interest.

Special Leave Petition (Civil) No. 14989 of 2023) Page 25

25. Section 31(7)(a) confers a wide discretion upon the arbitrator in regard to the grant of pre-award interest. The arbitrator has the discretion to determine the rate of reasonable interest, the sum on which the interest is to be paid, that is whether on the whole or any part of the principal amount, and the period for which payment of interest is to be made — whether it should be for the whole or any part of the period between the date on which the cause of action arose and the date of the award. When a discretion has been conferred on the arbitrator in regard to the grant of pre-award interest, it would be against the grain of statutory interpretation to presuppose that the legislative intent was to reduce the discretionary power of the arbitrator for the grant of post-award interest under clause (b). Clause (b) only contemplates a situation where the arbitration award is silent on post-award interest, in which event the award-holder is entitled to a post-award interest of eighteen per cent."

49. At this stage, it is pertinent to note that Clause 16(3) of the GCC is similar to the clause in question in Manraj Enterprises (supra), wherein this Court also took into consideration the three-judge bench decision in Bright Power Projects (India) (P) Ltd. (supra), which barred the grant of pendente lite interest only. However, in the case of Manraj Enterprises (supra), this Court held that in view of the clause barring interest in the GCC, "the arbitrator could not have awarded the interest, pendente lite or future interest on the amount due and payable to the contractor under the contract in the instant case."

50. Considering the facts of the present case, a distinct legal regime governs post-award interest, which operates independent of the principles applicable to pre-award or pendente lite interest.

Special Leave Petition (Civil) No. 14989 of 2023) Page 26 Clause 64(5) of the GCC bars interest only "till the date on which the award is made". It does not prohibit interest for the period subsequent thereto.

51. Keeping in view the aforesaid provisions of GCC and the Act of 1996 coupled with the decisions rendered by this Court, now the operative part of the Arbitral Award is carefully examined, it is revealed that the AT has awarded pre-award/pendente lite interest for Claim Nos. 1,3 and 6. The relevant part of the Arbitral Award reads as under:

"Claims:

Sr. Particulars Claim Amount in Award sum in Rs.

Rs.

Claim Financing charges towards 2,26,25,891 1,77,78,727/-

No.1	inordinate delay	
Claim No.3	Claim for non payment of 98,44.886/- PVC & INTEREST	1,70,18,577/-
Claim No.6	Payment due against the final bill & interest	1,67,51,576 2,28,70,261/-
	… …	…

8.0 The above award sum of Rs.5,53,57,597/- (Five crore fifty-three lakh fifty seven thousand five hundred ninety-seven rupees only) shall be paid by the Respondent to the Claimant within 60 days failing which, the awarded sum shall carry post-lite interest @12% per annum with effect from date of award till actual payment."

Special Leave Petition (Civil) No. 14989 of 2023) Page 27

52. We are of the view that the AT has committed serious error by awarding pre-award/pendente lite interest qua Claim Nos. 1, 3 & 6, though AT has observed that the said amount are awarded by way of compensation, however, in view of the peculiar clause of GCC as well as provisions contained in Section 31(7)(a) of the Act of 1996 and the decisions rendered by this Court, the AT could not have awarded the pre-award/pendente lite interest.

53. For the above stated reasons, the Commercial Court and the High Court failed to appreciate that the AT had awarded pendente lite interest in violation of an express contractual bar and such failure attracts interference even within the limited scope of Sections 34 and 37 of the Act.

54. Further, in the present case, the AT has expressly directed that the awarded sum shall carry post-award interest at the rate of 12% per annum only in the event of default, i.e., if payment is not made within the stipulated period of 60 days. The grant of post-award interest is, therefore, conditional in nature and operates as a deterrent against delayed payment, rather than as an automatic or punitive imposition of post-award interest.

55. There is no provision in the GCC which expressly bars the grant of post-award interest. In the absence of such an express

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Special Leave Petition (Civil) No. 14989 of 2023) Page 28 exclusion, the statutory mandate under Section 31(7)(b) of the Act must prevail.

56. In RP Garg (supra), in paragraph 11, this Court reiterated that post-award interest flows as a matter of law under Section 31(7)(b), unless the parties have unequivocally agreed to exclude it.

57. The submission of the appellants that Section 31(7)(b) of the Act stands overridden merely because the contract bars pre-award interest cannot be accepted. Pre-award and post-award interest operate in distinct fields and a contractual bar applicable to the former cannot, by implication, be extended to the latter, and thus, any exclusion of post-award interest must be explicit and unambiguous.

58. Accordingly, the conditional grant of post-award interest in the present case is consistent with the statutory framework and serves the purpose of ensuring timely satisfaction of the award. However, we are of the considered opinion that the rate of post- award interest at 12% per annum, as awarded by the AT, is on the higher side. It is pertinent to note that the AT has not assigned any reasons whatsoever for fixing the rate of post- award interest at 12% per annum. In the absence of any justification in the award for fixing the rate at 12% per annum

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Special Leave Petition (Civil) No. 14989 of 2023) Page 29 and keeping in view the contemporary economic scenario, such rate would result in an excessive financial burden and would not subserve the principle of just compensation.

59. In this context, the decision of this Court in Gayatri Balasamy v. M/s. ISG Novasoft Technologies Limited, (2025) 7 SCC 1, is significant. In paragraphs 74 to 78, this Court has categorically held that courts retain the power to modify post- award interest under Section 31(7)(b) of the Act where the facts justify such modification. It has been clarified that Section 31(7)(b) is a distinct legislative creation which prescribes a statutory standard to guide the determination of post-award interest and since such interest is inherently future-oriented, the courts may increase or decrease the rate of post-award interest where compelling reasons exist. The Court further observed that when the statute itself benchmarks a standard, such benchmark must weigh in the consideration of the rate awarded and that the power of modification is necessary to avoid unnecessary setting aside of the entire award merely on the question of interest.

60. Thus, in the facts and circumstances of the present case, we deem it appropriate to modify the rate of post-award interest

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Special Leave Petition (Civil) No. 14989 of 2023) Page 30 from 12% per annum to 8% per annum from the date of award till realization.

CONCLUSION

61. Accordingly, the answer to the issues framed in the present matter is that:

> A. The AT is not justified in awarding pre-award/pendente lite interest, by way of compensation, while passing the award in favour of the respondent-claimant, and more particularly in view of Clause 16(3) and Clause 64(5) of the GCC. The award of such interest is not in accordance with the agreement, and liable to be set aside.

B. The AT is justified in awarding post award interest in favour of the respondent-claimant, however, the rate of post-

award interest is modified from 12% per annum to 8% per annum from the date of award till realization.

C. The Courts below committed a serious error while dealing with Issue (A) and Issue (B) referred hereinabove while exercising the powers under Section 34 and Section 37 of the Act.

62. In view of the aforesaid discussion, the impugned judgment dated 25.05.2023 passed by the High Court of Judicature at

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Special Leave Petition (Civil) No. 14989 of 2023) Page 31 Allahabad, the order dated 15.09.2022 passed by the Commercial Court, Jhansi, and the Arbitral Award dated 25.12.2018, are set aside, to the extent of the grant of pre-award / pendente lite interest or amounts in the nature of interest, qua Claim No. 1, 3 and 6. The Arbitral Award dated 25.12.2018 is further modified to the extent of the rate of the post-award interest from 12% per annum to 8% per annum from the date of award till realization.

63. Accordingly, the present appeal is partly allowed.

64. Pending applications, if any, shall stand disposed of.

.....J. [SANJAY KAROL] .....J. [VIPUL M. PANCHOLI] NEW DELHI, FEBRUARY 27, 2026

Special Leave Petition (Civil) No. 14989 of 2023) Page 32